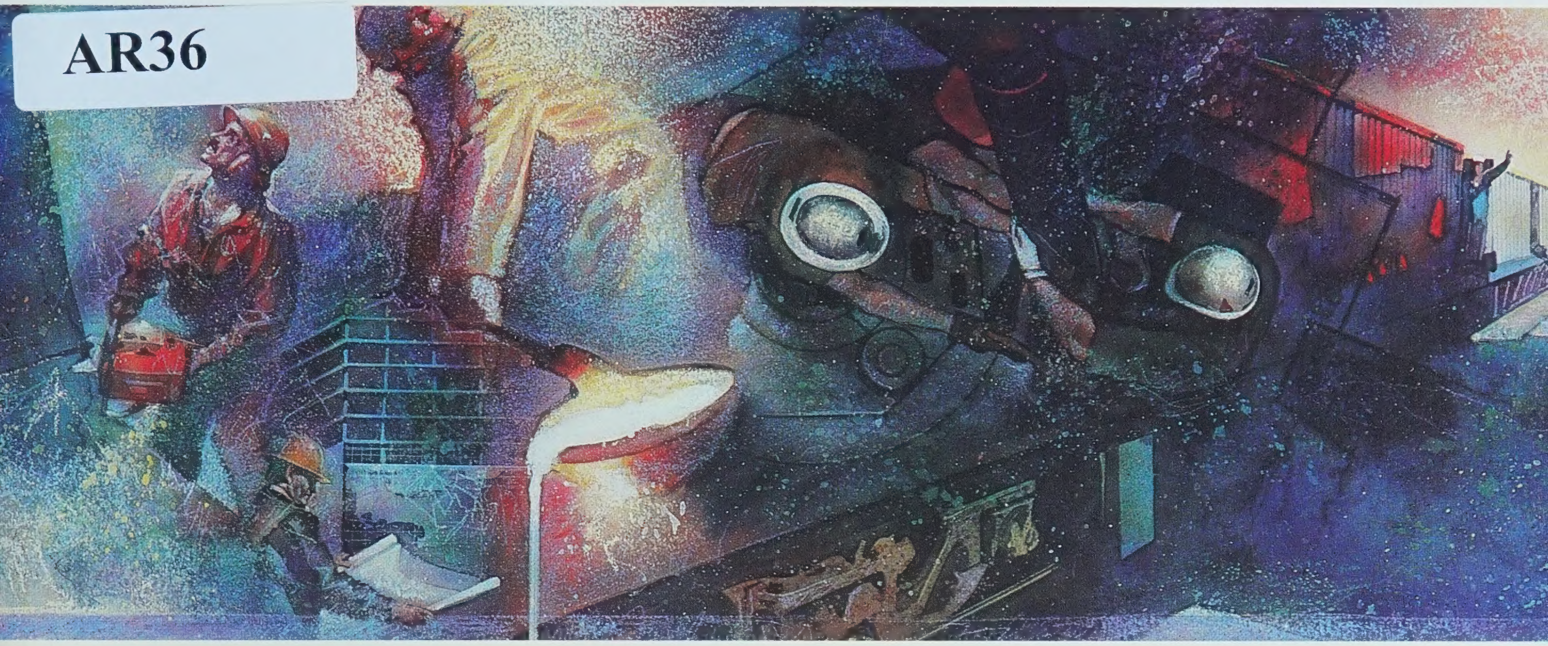
1987 Annual Report



Canadian
Pacific
Limited

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1988 Annual Meeting

The Annual Meeting of Shareholders is to be held on Wednesday, May 4, 1988, at Le Château Champlain, Place du Canada, Montreal, Quebec, at eleven a.m., Montreal time.

Highlights

		1987	1986	1985
		(dollars in millions, except amounts per share)		
Consolidated Data				
Income Items	Revenues	**$ 12,208.6**	$ 15,113.8	$ 15,128.0
	Net income from:			
	Transportation	**$ 229.7**	$ 93.3	$ 108.4
	Energy	**157.6**	55.2	201.9
	Forest Products	**170.0**	29.2	(16.8)
	Real Estate and Hotels	**48.2**	43.2	37.8
	Manufacturing and Other	**30.5**	(49.4)	(9.7)
	Discontinued Businesses	**0.7**	(21.4)	(68.9)
	Net income before extraordinary items	**636.7**	150.1	252.7
	Extraordinary items	**189.6**	(230.4)	—
	Net income	**$ 826.3**	$ (80.3)	$ 252.7
Per Ordinary Share	Net income			
	– before extraordinary items	**$ 2.12**	$ 0.50	$ 1.14
	– after extraordinary items	**$ 2.75**	$ (0.27)	$ 1.14
	Market Price (Toronto Stock Exchange) – High	**$ 30¼**	$ 20½	$ 21¾
	– Low	**$ 17¼**	$ 14	$ 15⅞
	Shareholders' equity	**$ 21.29**	$ 19.25	$ 20.31
Rates of Return	Average capital employed	**8.1%**	4.7%	5.9%
	Average shareholders' equity	**10.4%**	2.5%	4.8%
	Cash from operations	**$ 2,126.9**	$ 1,330.2	$ 1,343.0
	Capital expenditures	**$ 1,254.7**	$ 1,787.8	$ 1,888.5
	Total assets	**$ 18,000.7**	$ 17,698.7	$ 21,331.5
	Debt:equity	**38:62**	43:57	46:54
	Average number of employees	**85,400**	93,800	123,400
Non-Consolidated Data	Net income			
	– before extraordinary items	**$ 381.1**	$ 252.9	$ 233.6
	– after extraordinary items	**$ 643.8**	$ 2.0	$ 233.6
	Per Ordinary Share:			
	Net income			
	– before extraordinary items	**$ 1.27**	$ 0.85	$ 1.05
	– after extraordinary items	**$ 2.14**	$ 0.01	$ 1.05
	Dividends	**$ 0.54**	$ 0.48	$ 0.48
	Debt:equity	**21:79**	24:76	21:79
Ordinary Share Capital	Number of shares outstanding (in millions):			
	At year end	**302.8**	299.5	297.7
	Average for the year	**300.5**	298.3	220.8
	Number of shareholders at year end	**69,016**	78,892	83,156

Robert W. Campbell

Favourable market conditions and the recent actions taken to redirect the Company produced a sharp recovery in earnings in 1987. Consolidated net income before extraordinary items increased to $636.7 million, or $2.12 per Ordinary share, from $150.1 million, or $0.50 per share, in 1986. Including extraordinary items, consolidated net earnings in 1987 amounted to $826.3 million, or $2.75 per Ordinary share, in contrast with a loss of $80.3 million, or $0.27 per share, in 1986.

The Company's non-consolidated net income before extraordinary items increased to $381.1 million, or $1.27 per Ordinary share, in 1987 from $252.9 million, or $0.85 per share, in 1986.

Major factors in 1987's earnings improvement included buoyant markets for forest products, higher volumes of freight and improved operating efficiencies for CP Rail, and the benefits for Algoma Steel of improved markets and reduced costs. In addition, 1986 results were reduced by certain significant items, particularly PanCanadian's provision for a ceiling test write-down of its non-Canadian petroleum and natural gas properties and a restructuring charge by Soo Line.

The Company's balance sheet was strengthened further in 1987, including a significant cash position, and the rates of return on capital employed and on equity, while still below ultimate targets, increased significantly. Stronger earnings and the improved financial position enabled the Company to raise the quarterly dividend on the Ordinary stock to $0.15 per share from $0.12, which had been the rate since 1982.

As a result of the profound changes in domestic and worldwide economic conditions that put pressure on earnings in the first half of the 1980's, the Company embarked on a restructuring program in 1985 to better equip Canadian Pacific to function profitably in changing times. In 1987 this program continued with the sale of Canadian Pacific Air Lines in January and Maple Leaf Mills in August. Other measures in 1987 included the divestment of certain assets and operations of Soo Line, AMCA, CP Ships and CP Trucks. A write-down by AMCA of its investment in a major subsidiary, and a provision for a loss on the future disposal of leased hotel properties by CP Hotels in West Germany were also taken during the year.

Capital spending and new investments in 1987 were undertaken for replacement and modernization of existing assets and internal growth. These were concentrated in CP Rail, PanCanadian, CIP, Great Lakes Forest Products, Marathon Realty, CP Hotels and Algoma Steel.

The measures taken to date under the restructuring program have resulted in a tighter, more effective organizational structure with management time and energy concentrated on fewer businesses now grouped in five sectors including Transportation, Energy, Forest Products, Real Estate and Hotels, and Manufacturing and Other. The Company's subsidiaries and divisions function under strong operating management teams, while Canadian Pacific Limited is primarily concerned with strategic planning, resource allocation, financing, human resources, accountability and public policy matters.

The achievements of the past year are gratifying, but much remains to be done. Major issues in the business environment that will demand attention in 1988 include a new regulatory regime for the transportation industry in Canada. The new National Transportation Act became effective on January 1, 1988, changing regulation of most aspects of the Canadian rail transportation industry.

W. W. Stinson

Adding to the challenge in 1988 is the unusually wide range of expectations concerning the performance of the North American and world economies following the severe setback to the world's financial markets in October of last year.

A comprehensive Free Trade Agreement has been reached between the governments of Canada and the United States. The Agreement will eliminate numerous existing trade barriers, help prevent new barriers from being created and lays a foundation for further co-operation. It is pioneering in its treatment of the services sector. If approved by the respective legislative bodies, the Agreement will have a far-reaching and beneficial long-term impact on the Canadian economy through expanded purchasing power, reduced costs, increased investment spending and employment.

Canadian Pacific is determined to continue working toward realizing the full potential of the Company. 1988 will witness major steps designed to reinforce the market positions of several core businesses. These include the recent agreement to purchase the CN Hotel chain, progress on construction of new newsprint mills in Washington state and British Columbia and on expansion of fine paper capacity at Dryden, development of Fording Coal's reserves and its Genesee project, and stepped-up exploration and development programs by PanCanadian. As in 1987, the program to identify and dispose of assets and investments with limited potential will continue, and the Company will also actively consider new investment opportunities in Canada and internationally, primarily in the United States.

Canadian Pacific has a heritage of which it is proud and traditions on which it will continue to build. The challenging environment of the eighties has necessitated a change in direction. The Company is confident and determined that this new direction will lead to a no less unique and exciting future. The Company's primary objectives are, and will remain, the enhancement of shareholder values and the attainment of acceptable returns on a sustained basis. These objectives will only be achieved with the continued dedication and commitment of the people of Canadian Pacific. On behalf of the Directors, we wish to acknowledge their efforts during the past year.

Robert W. Campbell
Chairman

W. W. Stinson
President and
Chief Executive Officer

Montreal, March 14, 1988

Canadian Pacific in Profile

Canadian Pacific Limited directly and through subsidiaries participates in transportation, the development of extensive natural resource properties, manufacturing and other activities in Canada and internationally.

Transportation

(in millions)	1987	1986
Revenues	**$4,425.9**	$4,200.0
Net Income after Minority Interest	**$ 229.7**	$ 93.3

Employees	1987	1986
CP Rail	**24,600**	25,800
Soo Line Corporation	**5,600**	6,700
CP Ships	**1,900**	2,200
CP Trucks	**6,500**	6,800

Energy

(in millions)	1987	1986
Revenues	**$ 988.7**	$1,043.6
Net Income after Minority Interest	**$ 157.6**	$ 55.2

Employees	1987	1986
PanCanadian Petroleum Limited	**1,500**	1,500
Fording Coal Limited	**1,300**	1,300

Products/services/markets	Locations
Provides rail and intermodal transportation of agricultural, fabricated and bulk commodities over a 14,600-mile railway system serving most of the principal centres of Canada and connecting with major U.S. railroads.	Head office: Montreal. Business unit offices: Toronto, Vancouver. Operating and sales centres across Canada; sales offices in the United States and overseas.
55.8% owned, provides rail service transporting resource and manufactured commodities over 5,800 miles of line in 12 midwestern states. Truck operations include intermodal and common carrier road services.	Head office: Minneapolis, Minnesota.
Centennial Shipping Limited, a wholly-owned subsidiary, holds 57% of Canada Maritime Limited, which provides container and ro/ro services between Montreal, Northern Europe and the Mediterranean.	Head office: Hamilton, Bermuda.
Canadian Pacific (Bermuda) Limited, a wholly-owned subsidiary, owns and operates a diversified fleet of 27 tankers and bulk carriers around the world.	Head office: Hamilton, Bermuda.
Canadian Pacific Express & Transport Ltd., a wholly-owned subsidiary, offers a full range of road transport services, including less than truckload, parcel delivery, truckload, specialized bulk systems, and household and commercial moving.	Head office: Toronto. More than 200 terminal locations throughout Canada and 5 terminals in the eastern United States.
CanPac International Freight Services, wholly-owned, engages in customs brokerage, international freight forwarding, and bulk liquid storage and warehousing.	Head office: Montreal. Branch offices and operations in Nova Scotia, Quebec, Ontario, Manitoba, Alberta and British Columbia, and agents world-wide.
87.1% owned, is one of the largest Canadian-owned hydrocarbon businesses. It is engaged in the exploration for and production, transportation and wholesale marketing of crude oil, natural gas, natural gas liquids and sulphur. Products are sold primarily in Canadian and U.S. markets.	Head office: Calgary. Other offices: Denver and Houston. Exploration and development activities are primarily in Western Canada, but also in the United States.
100% owned, develops and processes metallurgical and thermal coal reserves. Markets include blast furnace steel producers, utilities and other coal consumers world-wide.	Head office: Calgary. Mine sites in Alberta and southeastern British Columbia.

Forest Products

(in millions)	1987	1986
Revenues	**$2,784.2**	$2,333.4
Net Income after Minority Interest	**$ 170.0**	$ 29.2

Employees	1987	1986
CIP Inc.	**11,200**	10,900
Great Lakes Forest Products Limited	**4,700**	5,000

Real Estate and Hotels

(in millions)	1987	1986
Revenues	**$ 660.3**	$ 644.2
Net Income after Minority Interest	**$ 48.2**	$ 43.2

Employees	1987	1986
Marathon Realty Company Limited	**1,100**	700
Canadian Pacific Hotels Corporation	**4,800**	5,400

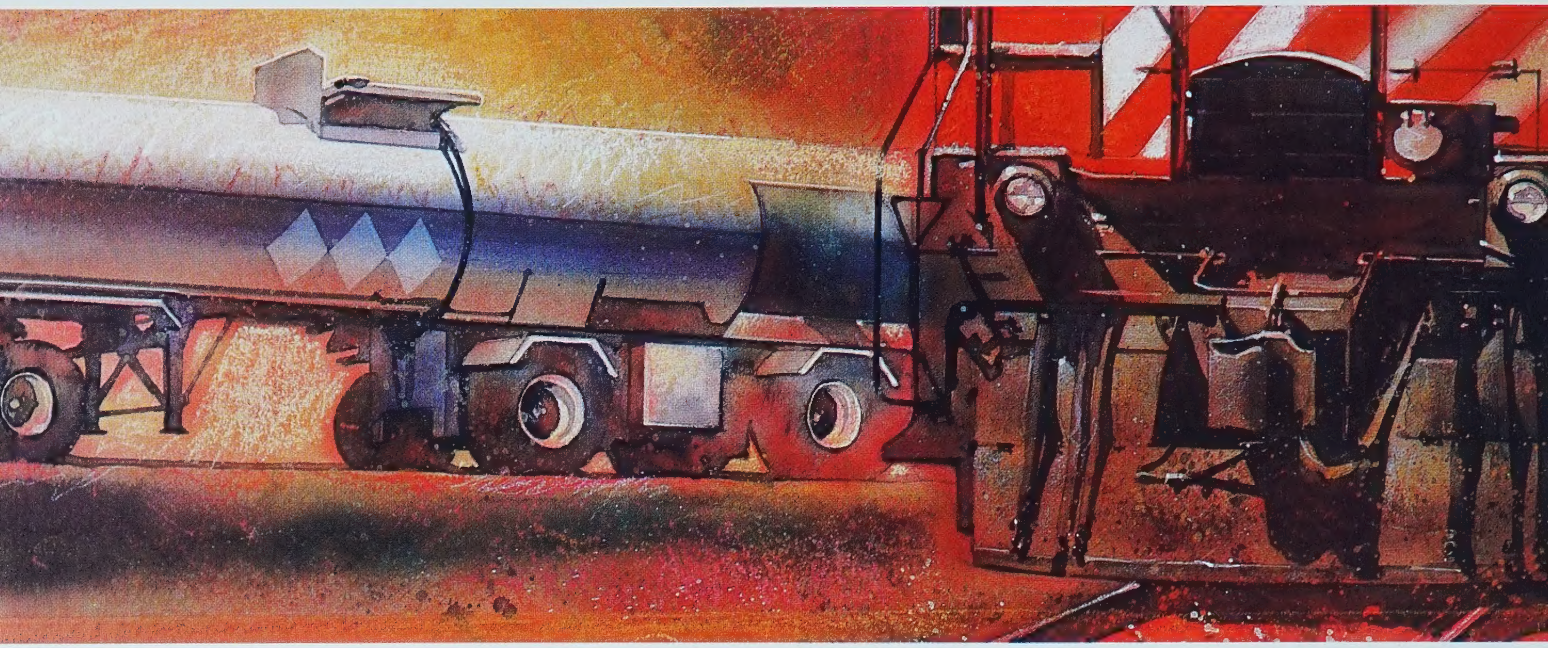
Manufacturing and Other

(in millions)	1987	1986
Revenues	**$3,182.4**	$3,961.5
Net Income (loss) after Minority Interest	**$ 30.5**	$ (49.4)

Employees	1987	1986
The Algoma Steel Corporation, Limited	**8,900**	8,700
AMCA International Limited	**9,500**	10,900
Syracuse China Corporation	**800**	700
CP Telecommunications	**1,700**	1,800
Other	**1,300**	1,100

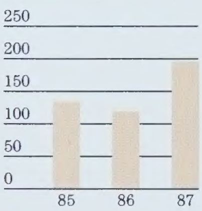
Products/services/markets	Locations
100% owned, is one of the world's largest producers and marketers of newsprint. Also produces pulp, packaging materials, tissue products, logs, lumber and building materials. These products are sold in more than 40 countries.	Head office: Montreal. Facilities are located in Newfoundland, Nova Scotia, New Brunswick, Quebec, Ontario, Alberta and British Columbia.
54.3% owned, produces kraft pulp, newsprint, fine papers and stud lumber. Principal markets are in the United States.	Head office: Thunder Bay, Ontario. Facilities are at Thunder Bay and Dryden, Ontario, with wood resources nearby.
100% owned, develops, owns and manages income-producing properties including shopping centres, and office, industrial and aviation-related buildings. Also holds business properties and industrial parks as well as commercial lands.	Head office: Toronto. Properties are located across Canada and in the United States. Regional offices are in Vancouver, Calgary, Toronto, Montreal, San Francisco, Atlanta and Dallas.
100% owned, operates 20 hotels, with 8,500 rooms, which it owns, leases or manages.	Head office: Toronto. Hotels are in city centre and resort locations across Canada and in West Germany.
53.8% owned, is a fully integrated steel producer. Principal product lines are sheet and strip, plate, seamless tubulars, structural shapes and rails, with markets in Canada and the United States. It also produces both thermal and metallurgical coal.	Head office and steelworks: Sault Ste. Marie, Ontario. Mining operations are in Ontario, Michigan and West Virginia.
50.6% owned, is a world-wide corporation producing a broad range of steel-based industrial products with significant engineering content. AMCA also provides engineering/construction services.	Head office: Hanover, New Hampshire. Divisions and subsidiaries are located primarily in the United States and Canada.
100% owned, manufactures commercial chinaware mainly in the United States. Markets include commercial and institutional segments of the food service industry.	Head office: Syracuse, New York. Plants are located in Syracuse, Pennsylvania and Quebec.
Provides, in partnership with Canadian National, a comprehensive communications service covering a full range of Voice, Data, Text and Messaging services across Canada, with connections to the U.S. and overseas.	Head office: Toronto. Regional offices: Vancouver, Toronto and Montreal. Operations centres and sales offices across Canada.
Included are centralized corporate service activities, and various subsidiary companies such as Processed Minerals Incorporated (salt, wollastonite and tripoli production); Steep Rock Resources Inc. (calcite production); Canadian Pacific Securities Limited (finance); and Canadian Pacific Consulting Services Ltd. (international consulting in the areas of transportation, communications, hotels and energy).	Canada, United States and overseas.

Transportation

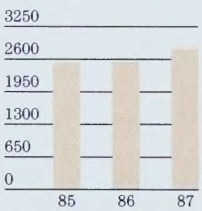


CP Rail

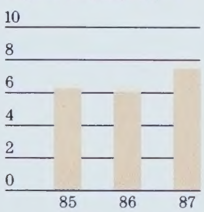
Net Income ($ millions)



Revenues ($ millions)



Return on Average Capital Employed (%)



CP Rail

Net income of $195.9 million from CP Rail was up from $119.4 million in 1986 and $133.4 million in 1985. Record traffic levels, combined with improved operating efficiencies, contributed to the increase in 1987 income. In 1986 freight revenues were generally weak compared with 1985 levels, while expenses were higher.

CP Rail's 1987 traffic volumes overall were up 16% from 1986. Grain traffic rose substantially, due to a high volume crop year and efforts by the Canadian Wheat Board to increase exports. Higher grain sales were made to the Soviet Union, China, South Korea and Mexico. Revenues from increased grain volume, however, were partially offset by a repayment to the Federal Government of $35.6 million under the terms of legislation governing the rate levels that can be charged by the railways for the movement of export grain. CP Rail also carried record levels of coal in 1987, due primarily to greater shipments to Ontario Hydro and U.S. markets. Increased volumes of forest products reflected the strong markets generally for pulp and paper, increased housing activity and recovery of lumber business following the end of the lengthy strike in the British Columbia forest industry late in 1986.

CP Rail's operations were shut down for five days in August 1987 by a nation-wide railway strike of train-service and other employees represented by the Associated Railway Unions. The strike ended with back-to-work legislation and the appointment by the Federal Government of an arbitrator to settle the unresolved contract issues. Employees who were members of the shopcraft unions did not strike and their contract issues were not placed before the arbitrator. Early in February 1988, the arbitrator issued an award settling all outstanding issues except for employment security, work rules and cabooseless train operations. The award grants employees a retroactive 3% wage increase effective January 1, 1987, another 3% effective January 1, 1988 and a further 0.5% on July 1, 1988. The award covers a two-year period which will end December 31, 1988. Hearings with respect to the remaining outstanding issues continue.

CP Rail continued its thrust during 1987 to operate more efficiently. Measures that have improved productivity and helped contain operating expenses over recent years include increasing the length and weight of trains and directing capital investments towards improved track materials requiring less maintenance and to the acquisition of more modern, efficient equipment and facilities.

Increased and more efficient capacity will be achieved when CP Rail completes its Rogers

Pass project in early 1989. The project, which started in 1984, will cost approximately $500 million and will remove a barrier which had prevented the operation of increased train service on the railway's main line between Calgary and Vancouver.

The drive to ensure CP Rail's continued competitiveness also sparked a realignment early in 1987 of CP Rail's operations into two business units – one in Western Canada to focus on heavy haul freight and the other in the east to develop intermodal freight systems. This realignment allows a more flexible response to market opportunities and competitive pressures resulting from regulatory reforms and changing business patterns in Canada and internationally.

The new National Transportation Act, which came into effect on January 1, 1988, brings fundamental change into Canadian railway operations. The new law disallows collective rate-making, permits confidential rate contracts between railways and shippers, and allows certain shippers served by only one railway to ship to the nearest interchange with a connecting carrier at prescribed rates. In addition, the Act introduces final offer arbitration to settle disputes between carriers and shippers.

Soo Line Corporation

Net losses from Soo Line, which is 55.8% owned, amounted to $5.7 million in 1987, $33.5 million in 1986 and $8.7 million in 1985. The sizeable loss in 1986 reflected a restructuring charge, which amounted at CP Limited's level to $32.7 million after tax. In 1987 there was a charge attributable to the sale of Soo Line's Lake States division, of which CP Limited's share amounted to $9.6 million after tax.

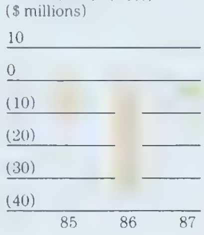
Soo Line's operating results in 1987 were better than those of 1986. Although revenues were affected by competitive rate pressures and an unfavourable traffic mix, business levels overall were up 2% and operating costs, especially of labour, were considerably lower. Carload movements increased for farm products, raw materials and chemicals, and automotive products. In comparing 1986 with 1985, overall traffic was down 2% and rates declined but Soo Line benefited from lower fuel prices and improved operating efficiencies.

The greatly expanded system created by the Milwaukee Road purchase in 1985 prompted significant change at Soo Line. In integrating the new system, a major rationalization was instituted, and decisions were taken in 1986 to reduce the size of the work force and dispose of surplus freight equipment, which led to the restructuring charge that year. In 1987 Soo Line sold its Lake States division, a light density territory not compatible with Soo Line's operations. Included in the sale were approximately 2,000 miles of line mainly in Wisconsin and Michigan and a significant fleet of locomotives and freight equipment. The cash proceeds of U.S. $133 million were used to retire debt.

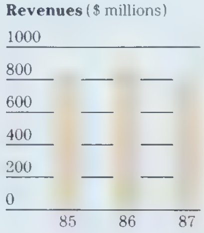
As a result of these steps, Soo Line's employment levels at year-end 1987 were down by more than 38% since the beginning of 1985, its fleet of locomotives and freight cars was reduced by 23%, and the miles of line over which it operates were slimmed down by 27%.

Soo Line Corporation

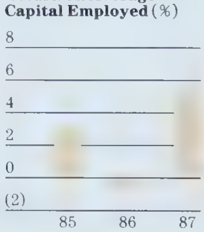
Net Income / (Loss)
($ millions)

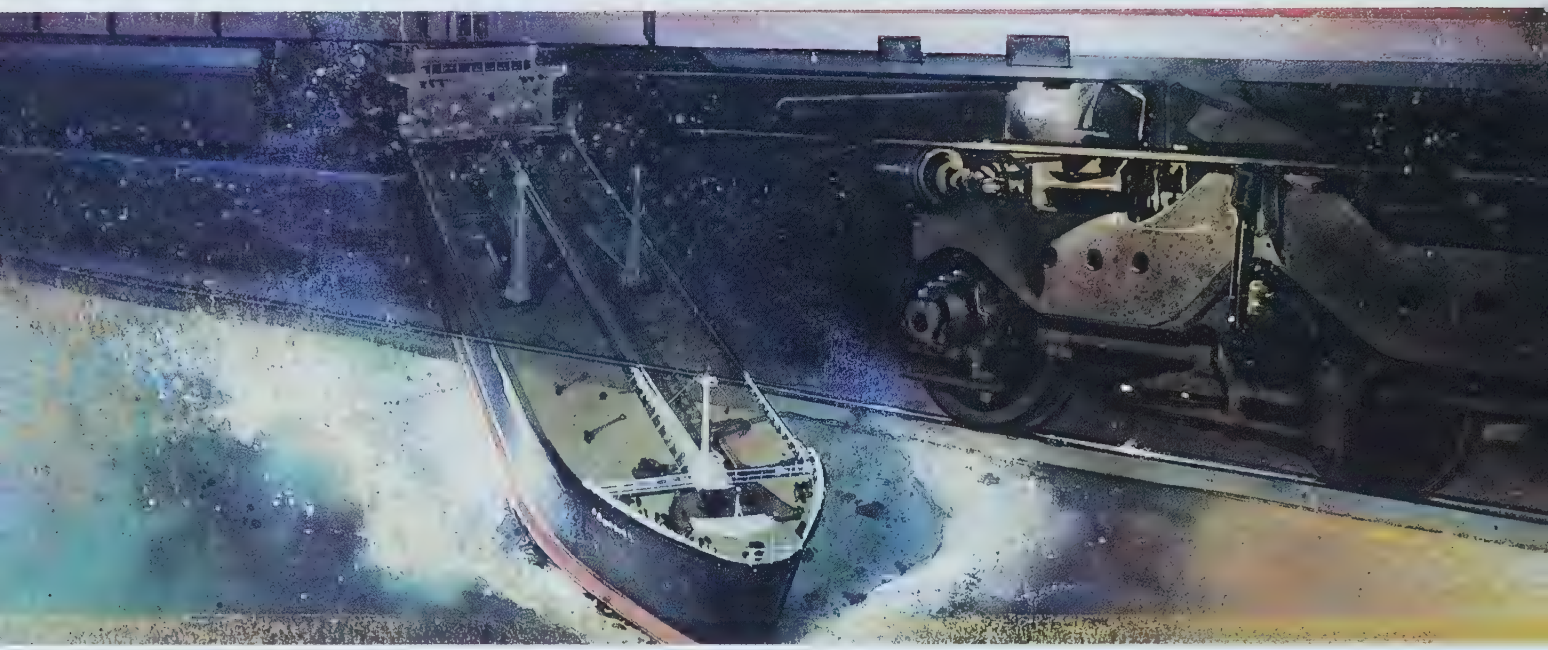


Revenues ($ millions)



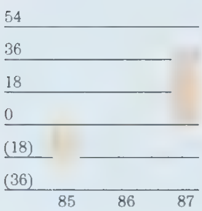
Return on Average Capital Employed (%)



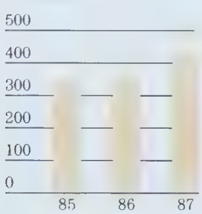


CP Ships

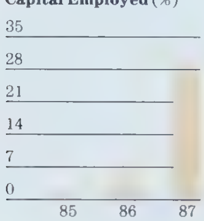
Net Income / (Loss) ($ millions)



Revenues ($ millions)



Return on Average Capital Employed (%)



CP Ships

Container Operations

Net income from Container Operations amounted to $13.1 million in 1987, compared with $8.0 million in 1986 and $13.4 million in 1985. Results for 1985 included a provision for a loss of $6.4 million on the disposal of a container vessel.

The improvement in 1987 income over 1986 was chiefly the result of increased contributions from charter and miscellaneous activities, together with reduced interest charges arising from debt repayment. The main operating division, Canada Maritime Limited, was profitable but experienced its second year of earnings reduction from the peak year 1985.

Following a downturn in westbound carryings on Canada Maritime's North Atlantic service in 1986, westbound carryings remained static during 1987 while eastbound volumes surged, particularly in the latter half of the year. Competitive pressures were severe, and rate erosion occurred in both directions.

1987 was the first full year of operation of the container service between Montreal and the Mediterranean, which is operated jointly by Canada Maritime and two other carriers. Substantial growth in volume was achieved, with westbound rates remaining stable and eastbound rates weakening somewhat.

In all trades, the strength of the European currencies had a serious adverse impact on cost levels.

Bulk Shipping Operations

Bulk Shipping Operations incurred a net profit of $29.9 million in 1987, which contrasts with losses of $7.9 million in 1986 and $32.5 million in 1985.

Gains totalling $17.8 million on the sale of two vessels accounted for a major part of the turnaround in Bulk Shipping results in 1987. In 1986 and 1985 there were losses of $1.1 million and $6.0 million from selling two and four vessels, respectively.

Other important factors leading to the steady improvement since 1985 were ongoing cost rationalization measures, lower depreciation charges stemming from the sizeable write-down in the value of the fleet in mid-1986, and gradual improvement in shipping markets. In the second half of 1987 all of the company's major markets – ranging from chemicals to vegetable oils to bulk products – benefited from better rates.

The 1987 disposals were of a large bulk carrier and the last remaining large crude oil carrier. These ongoing vessel sales reflect the strategy to concentrate on specialized, lower-risk market segments.

Early in 1988, Canadian Pacific reached agreement with Barber International to form a new ship management company on an equal partnership basis to be headquartered in London, England. In addition to managing the ships of both companies, the new partnership will undertake third-party management contracts.

CP Trucks

CP Express & Transport incurred a loss of $2.0 million in 1987. However, this includes an after tax write-off of $12.0 million representing the diminution in the value of operating licences and goodwill resulting from deregulation of the industry. A partially offsetting gain of $5.0 million arose from the sale of the Express Airborne division, a courier service. In 1986 and 1985 CP Express & Transport earned profits of $6.1 million and $1.5 million, respectively.

Following significant improvement in 1986, results of the General Commodities division were adversely affected in 1987 by increasing rate erosion in anticipation of the new deregulated environment. Expenses were curtailed, but the savings were not sufficient to offset the revenue loss.

The Specialized Commodities division had another successful year in 1987, with CANPAR, Highland Transport and Bulk Systems all posting record revenues and operating income. The household and commercial moving operation, CP Moving Systems, however, had to cope with a climate of heavy rate discounting and fierce competition.

Outlook

CP Rail expects bulk commodity volumes to decline in 1988. Although coal volume is forecast to hold steady, record 1987 grain shipments are not expected to recur. Transportation of commodities such as automobiles and parts, containers and trailers is expected to increase. Fuel, material and labour cost increases will be marginally offset by operating efficiencies, including cabooseless operations. Completion of the Rogers Pass project will significantly reduce borrowing requirements in the future.

Excess capacity in the railroad industry and competition from other modes are expected to put pressure on Soo Line's freight rates in 1988. Another source of concern is the proposed modification to the Staggers Act to reregulate the railroad industry, which has passed a House of Representatives Commerce Subcommittee. The bill is opposed, however, by the National Industrial Transportation League, which represents about 80% of U.S. shippers.

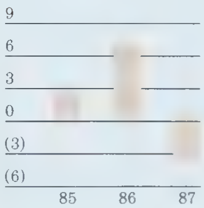
Rate increases on North Atlantic container traffic are anticipated following reasonably buoyant trading conditions heading into 1988. Prospects of more balanced trade will contribute to a substantial reduction in costs of empty positioning. However, the relative strength of the major European currencies could adversely affect margins in 1988, as many costs are incurred in these currencies.

Although bulk shipping markets continue to gather strength, they remain susceptible to uncertainties in the outlook for world trade. However, rates should remain firm for 1988 as volumes of most major bulk commodities have been strengthening and scrapping continues to outpace deliveries from shipyards.

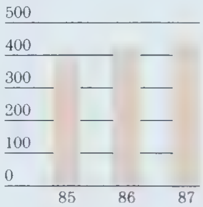
CP Trucks expects further growth in the Specialized Commodities division in 1988, with the introduction of new services, expansion of international business and further diversification. The General Commodities division, however, should continue to face uncertainties because of industry over-capacity, possible rate discounting, and deregulation.

CP Trucks

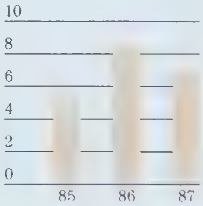
Net Income / (Loss) ($ millions)



Revenues ($ millions)

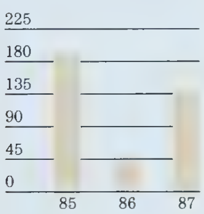


Return on Average Capital Employed (%)

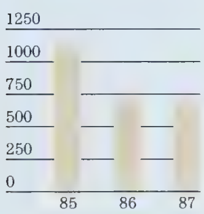


PanCanadian Petroleum Limited

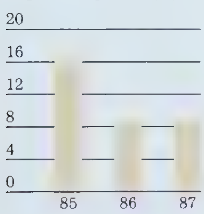
Net Income ($ millions)



Revenues ($ millions)



Return on Average Capital Employed (%)



PanCanadian Petroleum Limited

In a challenging environment, PanCanadian had a successful year. CP Limited's net income from PanCanadian, 87.1% owned, amounted to $142.5 million in 1987. This was up from $39.1 million in 1986, when there was an unusual charge of $82.5 million, representing CP Limited's share of PanCanadian's ceiling test write-down of non-Canadian petroleum and natural gas properties resulting from the fall in world oil prices. In 1985, earnings from PanCanadian were $194.5 million.

PanCanadian's 1987 results were better than in 1986 after excluding the unusual charge, due principally to improved oil prices. In addition, oil production rose and there was the benefit from the elimination late in 1986 of the Petroleum and Gas Revenue Tax. Natural gas prices declined significantly, however, and price and volume of natural gas liquids decreased from 1986.

After falling dramatically in 1986 from a high of over $37 per barrel in January to a low of $15 in July, domestic oil prices began to recover towards the end of the year. In 1987 posted prices in Canada ranged between $22 and $27 per barrel for most of the year but closed at $20.50 with oversupply conditions persisting in the world. Surplus supplies of natural gas and the effects of deregulation continued to prompt intense competition, resulting in more gas being sold on a direct basis and considerable downward pressure on prices. The weighted average price of gas per thousand cubic feet received by PanCanadian in 1987 was $1.57, down from $2.12 in 1986 and $2.53 in 1985. Competitive conditions also led to depressed prices for natural gas liquids.

PanCanadian's production of conventional crude oil in 1987 was up 7% over 1986, and production of natural gas was 1% higher, but production of natural gas liquids decreased 10%, reflecting a decline in the amount of natural gas processed at the Empress plants in which PanCanadian has working interests.

PanCanadian's 1987 development activities were concentrated in areas considered the most promising for early cash flow as well as those offering potential over the longer term. In response to the oil price recovery, PanCanadian's capital expenditures increased to $214.3 million, or 24% over 1986, with the primary focus of activity in Alberta, where economic factors and the potential for significantly augmenting reserves are the most favourable. Oil exploration, development and production activities were given priority, while for natural gas, efforts were directed mainly at maintaining contractual deliverability and market share.

1987 was the second full year of oil deregulation in Canada and the first full year of natural gas deregulation. Fluctuating oil prices in the domestic market reflected the sensitive international prices during the year. The significant drop in Canadian oil prices in December confirmed this volatility and the vulnerability of Canadian producers to shifts in supply and demand. Under natural gas deregulation, the National Energy Board adopted new rules for determining the volume of gas that is surplus to domestic requirements enabling the industry to capture future export opportunities that otherwise might have been lost. However, critical issues still to be resolved stem from the reluctance on the part of some provincial regulatory bodies to recognize the necessary distinction in

pricing natural gas for different markets and the method by which sales should be made to residential and commercial consumers.

Fording Coal Limited

CP Limited's income from Fording Coal amounted to $15.1 million in 1987, compared with $16.1 million in 1986 and $7.4 million in 1985. The increased earnings in 1986 over 1985 reflected CP Limited's ownership of Fording increasing to 100% upon acquisition of Cominco's 40% interest early in 1986.

In recent years Fording Coal has been successful in maintaining consistent profit levels, despite continued over-supply in world coal markets and the resulting downward pressure on selling prices which have declined by 45% since 1982. This achievement was the result of intense efforts to acquire new customers, together with improved productivity and lower operating costs.

In recognition of achievements in improving productivity, Fording received in 1987 the Silver Award in the productivity category of the Canada Awards for Business Excellence. Fording has increased productivity at its Fording River operations by 100% since 1981.

Fording has made progress in developing significant new customers, particularly in North and South America and the Pacific Rim, which has resulted in much less dependence on its original market of the Japanese consortium of steel mills. As a result, even though sales to the Japanese steel mills have been reduced, Fording's total shipments of 5.1 million tonnes in 1987 were essentially the same as in 1986 and 28% higher than in 1985.

To enhance future profitability, Fording is involved in a number of projects. The company's development of coal reserves at Eagle Mountain, British Columbia progressed during 1987, and the project is expected to be completed in 1989. Fording is also involved in a joint venture with the City of Edmonton to construct and operate the Genesee Coal Mine to supply a power plant; start-up is scheduled for 1989. The company is assessing the feasibility of constructing an electric power facility at the site of its Fording River operations. Excess capacity from the facility would be available for sale.

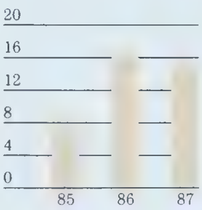
Outlook

Oil price fluctuations in the domestic market are expected to continue, reflecting continuing world oversupply and the impact of international political events. PanCanadian is responding to these uncertainties through its ongoing cost reduction programs and a flexible approach to exploration and development of new properties. Natural gas prices have moved up recently reflecting a lessening degree of oversupply in the U.S. and brightening prospects, although competition will remain intense.

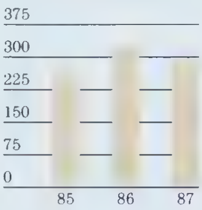
Following five consecutive years of decline, the outlook is for a recovery of coal prices. Fording's policy of developing new customers will continue and overall sales revenue is expected to improve in 1988 due to higher prices and increased volume. These factors, however, will be partly offset by the stronger Canadian dollar relative to the U.S. dollar.

Fording Coal Limited

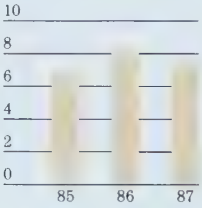
Net Income ($ millions)



Revenues ($ millions)



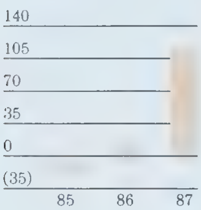
Return on Average Capital Employed (%)



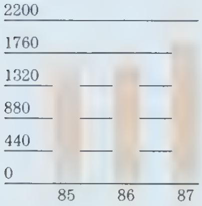
Forest Products

CIP Inc.

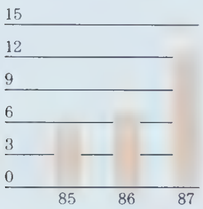
Net Income / (Loss)
($ millions)



Revenues ($ millions)



Return on Average Capital Employed (%)



CIP Inc.

Net income rose to $117.8 million from $12.9 million in 1986 and a net loss of $16.6 million in 1985. Pulp, newsprint and lumber markets were very strong in 1987 and CIP made further progress in reducing costs.

The upward trend in markets that began in 1986 resulted in both higher selling prices and increased volumes of CIP's products. Pulp prices have increased nearly every quarter over the last two years, prices of newsprint started strengthening in the latter part of 1986, and prices of logs and lumber improved. CIP's shipments of newsprint and pulp increased moderately in 1987 from 1986 levels, and log and lumber sales also increased over 1986, when production was curtailed by a five-month strike in the British Columbia forest industry. CIP's major facilities are now operating at essentially full capacity.

CIP's results have also benefited from 1986's sharp fall in energy prices, improved operating efficiencies and reductions in interest charges from lower levels of debt.

Operations in 1987 were disrupted by a five-day strike of paperworkers at CIP's mills in Quebec and New Brunswick. The strike ended with the signing of three-year agreements, which are basically in line with competitors' settlements. In 1988, new contracts must be negotiated with CIP's unions at its British Columbia operations and its converting plants in eastern Canada.

Stronger earnings and an improved balance sheet have enabled CIP to continue its ongoing modernization and replacement program, and to expand capacity. Major projects during 1987 involved the Gatineau, Quebec newsprint mill where new equipment was installed in order to generate cost savings, improve quality and meet increased customer demand and the Trois-Rivières newsprint mill in order to increase supercalendering capacity and provide higher quality grades. At the La Tuque pulp mill plans are being finalized for installation of a new bleachery to obtain better product quality at lower cost.

In the latter part of 1987 CIP began construction of a new 230,000-tonne newsprint operation at Gold River, British Columbia. The joint venture project is to be completed in late 1989 at a total cost of $323 million, of which CIP's investment will be approximately $91 million. The other partners are committed to purchase more than 70% of the annual production.

Great Lakes Forest Products Limited

Net earnings from Great Lakes Forest Products, 54.3% owned, amounted to a record $52.2 million in 1987, up from $16.3 million in 1986 and a net loss of $0.2 million in 1985. The improvement reflected continued buoyant demand, particularly for kraft pulp, and a better competitive position for North American producers resulting from the lower U.S. dollar.

After plummeting in 1985, pulp prices began to recover in the second quarter of 1986 and continued to strengthen in 1987 with increases in the first, second and fourth quarters of that year. Shipments of pulp by Great Lakes reached record levels in 1987, due not only to strengthening markets but also to an improved operating performance. Following the price increase for newsprint in late 1986, the first since 1984, newsprint prices were up again in mid-1987. Great Lakes' newsprint production was also

higher, due in part to less downtime for maintenance and capital improvements than in 1986.

Fine paper markets remained very competitive in the early part of 1987, but modest price increases and higher shipments took place in the second half. Despite a healthy residential construction market, stud lumber prices improved only moderately in 1987, and shipments were lower due to a temporary shutdown of sawmill operations early in 1987.

Great Lakes' stronger performance over the past two years was also achieved because of improved cost efficiencies through equipment modernization, the curtailment of unprofitable operations and technological improvements.

After a 15-day strike at the Thunder Bay mills, three-year labour contracts were signed in 1987 with unions representing the majority of mill employees at Dryden and Thunder Bay. The agreements were essentially in line with industry settlements in eastern Canada. Contract negotiations with unions representing Great Lakes' woodlands employees continue.

During 1987 Great Lakes announced a five-year $390 million modernization and expansion program involving the installation of a second fine paper machine at Dryden and a new newsprint machine to replace the two oldest machines at Thunder Bay. Construction of the fine paper machine began in June 1987 with start-up scheduled for 1989, and construction of the newsprint machine is expected to commence in 1988 and be completed in 1991.

Great Lakes is also managing partner in a joint venture with five U.S. newspaper publishers to construct a 180,000 tonne-per-year newsprint mill in northeastern Washington state. These publishers will purchase approximately 70% of the mill output. Development and construction costs for the project, excluding financing costs and working capital, are estimated to be approximately U.S. $300 million. Great Lakes' 40% participation in the partnership will require an investment of U.S. $44 million. Construction started in October 1987 with completion scheduled for late 1989.

Outlook

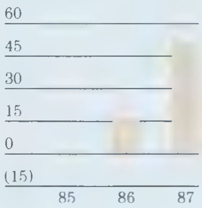
Markets for forest products are expected to remain favourable in 1988. Demand should remain firm, buoyed by the likelihood of continued economic expansion and the U.S. Presidential election. Only limited capacity expansion will occur. The U.S. and Canadian dollars should remain low relative to other major world currencies, although strengthening of the Canadian dollar against its U.S. counterpart will adversely affect Canadian producers.

For its part, CIP anticipates full capacity operations for its primary products, including newsprint, pulp and paperboard, and all are expected to show price improvement over 1987. Prices for corrugated containers should also increase. Market demand for CIP's logs and lumber is expected to be strong. In tissue, Facelle expects to increase its share of an expanding market.

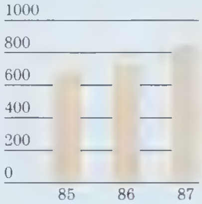
Great Lakes also expects further profit gains in 1988 based on continuing favourable market conditions for pulp and paper which should allow near capacity operating rates and modest improvement in prices. Markets for fine papers are also expected to improve as a result of continued economic recovery. Stud lumber returns are expected to be only slightly above 1987 performance.

Great Lakes Forest Products Limited

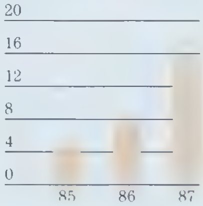
Net Income (Loss)
($ millions)



Revenues ($ millions)



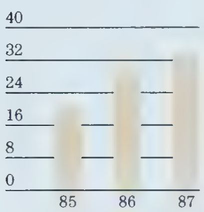
Return on Average Capital Employed (%)



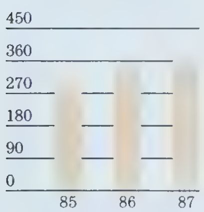
Real Estate and Hotels

Marathon Realty Company Limited

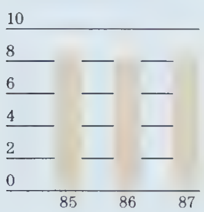
Net Income ($ millions)



Revenues ($ millions)



Return on Average Capital Employed (%)



Marathon Realty Company Limited

Net income in 1987 rose to $33.4 million from $28.9 million in 1986 and $20.1 million in 1985.

The improved results in 1987 over 1986 reflected mainly a full year's contribution from properties that were acquired or became operational in 1986. Rental income from several other properties also increased and there was a gain on the retirement of mortgages receivable. While several acquisitions and newly developed properties were important factors in 1986, that year's increase over 1985 in income from Marathon arose mainly from CP Limited's ownership increasing to 100% following its merger with Canadian Pacific Enterprises in late 1985.

Effective January 1, 1987, Marathon realigned its organizational structure from geographical regions into separate business units – Buildings, Shopping Centres and Land.

In the Buildings sector, which comprises 47 office buildings across Canada and in several U.S. locations with 11.3 million square feet of leasable space, leasing markets for office space remained very competitive in 1987, the result of industry over-building rather than weak demand. Apart from some properties in Western Canada, however, Marathon's buildings are satisfactorily leased.

Construction of two office buildings – Atria North, Phase II in Toronto and Marathon Plaza in San Francisco – was substantially completed by year-end 1987, and the first tenants moved in early this year. In its continuing effort to upgrade the portfolio and concentrate activities in larger, well located properties, Marathon sold a number of smaller buildings during 1987. Projects on which planning is under way include new office buildings in Toronto and Montreal and a twin-tower development on Vancouver's waterfront.

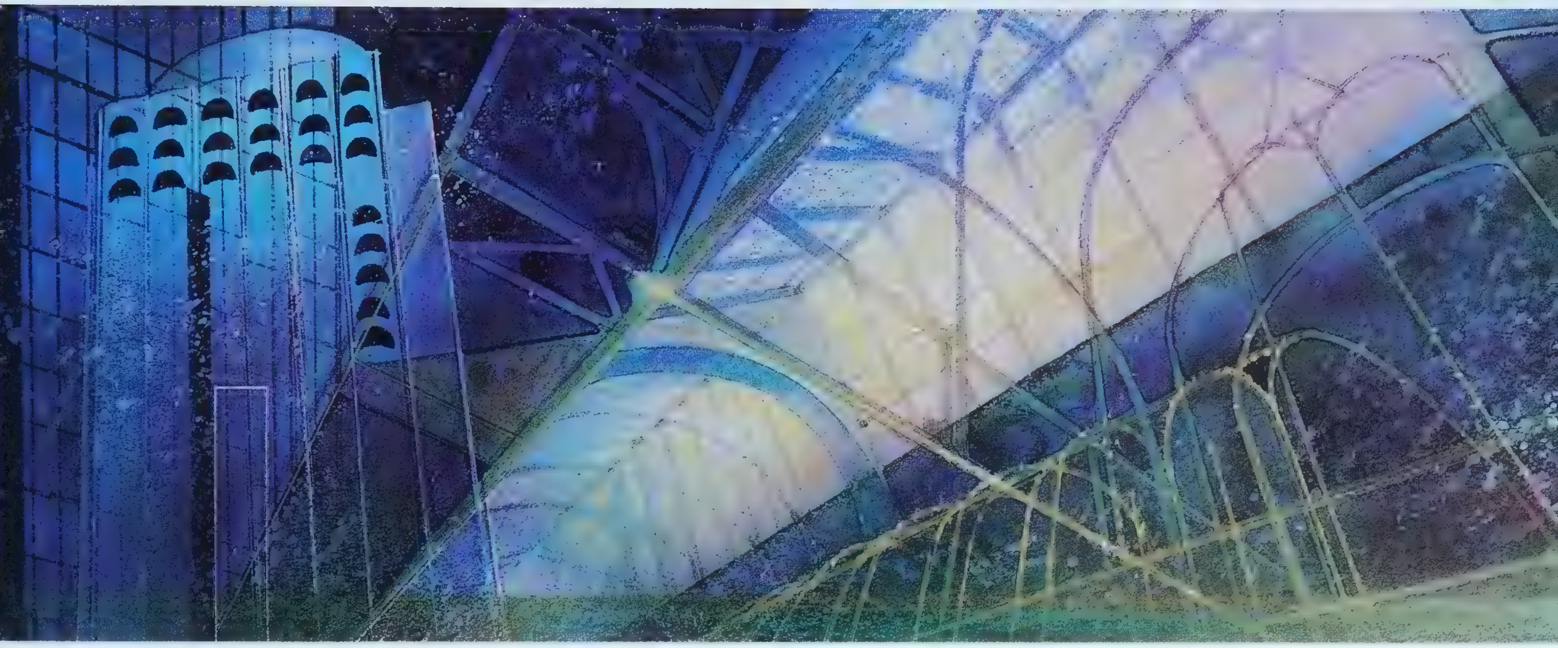
The Shopping Centre portfolio was expanded to 32 centres during the past year with the acquisition in June of major interests in six shopping centres in Texas, New Mexico and Louisiana having a total leasable area of 3.5 million square feet. This acquisition, made in partnership with the Herring Group, accounted for almost one third of Marathon's 1987 investment expenditures of $283 million.

Shopping centre projects under way include the remodeling and expansion of properties in Arkansas and Calgary, with expected 1988 openings, and the development of new properties in Texas and Oklahoma scheduled to open in 1989. Shopping centres in Canada, particularly Ontario, are experiencing good leasing markets and vacancies are low. Some centres in the southern United States are encountering high tenant turnover due to the sluggish economy in the region, although the properties acquired in 1987 are well leased.

The Land sector comprises a broad portfolio of commercial and agricultural properties, much of which is leased and is also for sale. As a result of the favourable judgment last June from the Supreme Court of Canada on the lawsuit brought by certain minority shareholders of the Ontario and Quebec Railway Company, Marathon can now proceed with the development of several key parcels of land, including the prominent Toronto Railway Lands project south of that city's financial district.

Canadian Pacific Hotels Corporation

Net income of CP Hotels was $14.8 million in 1987, compared with $14.3 million in 1986 when



there were net gains totalling $2.5 million on the disposal of properties. Earnings in 1985 amounted to $17.7 million and included $5.7 million representing the net after tax compensation received for termination of a management contract.

At the operating level, earnings from the domestic hotel operations improved in 1987, with room rates increasing significantly. Occupancy levels, however, declined slightly from 1986, when additional business was generated by Vancouver's Expo 86. In comparing 1986 with 1985, both room rates and occupancy levels improved at the Canadian hotels.

The company's three leased hotels in West Germany suffered further deterioration in operating results in 1987, due partially to the higher value of the Deutsche Mark. CP Hotels is planning to withdraw from operations in Germany and has made a provision for the estimated costs, which is included in CP Limited's extraordinary items for 1987.

CP Hotels continues to pursue its strategy of becoming a leader in its segment of the industry by catering to travellers who demand high-quality accommodation. 1987 marked the second year of a four-year program of extensive renovation, upgrading and expansion of hotels, with major emphasis on the Alberta properties in preparation for the 88 Winter Olympics in Calgary. Construction of the Lodge at Kananaskis and the Hotel Kananaskis in the Canadian Rockies was completed during the year, at which time CP Hotels assumed management of the properties. In the fall, construction began on a year-round 350-room resort hotel at Whistler, B.C. scheduled for completion in late 1989. Major renovations also continue at The Empress in Victoria and the Royal York in Toronto, and will begin in 1988 at the Château Frontenac in Quebec City.

Early in 1988 CP Hotels announced the acquisition of nine hotel properties operated as CN Hotels for $260 million. The chain includes such landmarks as the Chateau Laurier in Ottawa, the Hotel Vancouver, the Queen Elizabeth in Montreal and the Jasper Park Lodge in the Rockies. With the completion of this acquisition and the opening of those hotels under construction CP Hotels will increase its Canadian room base from 7,095 rooms in 17 locations to 11,642 rooms in 27 locations.

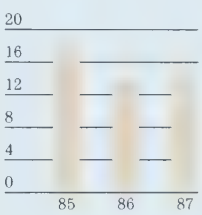
Outlook

Although consumer spending may not increase in 1988 at the rates experienced in recent years, the outlook for Marathon's shopping centres is bright. In the office market sector, vacancy levels are expected to continue their downward trend as demand absorbs excess supply; this should lead to firmer rentals and improved results. With aggressive targets, sales of both agricultural and industrial land are also anticipated to improve over 1987. Growth is expected to be achieved primarily through existing site development, although acquisitions complementary to the desired portfolio mix will be explored.

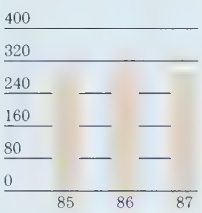
CP Hotels is positioned for strong performance with the recently announced acquisition of the CN Hotel chain, and an ongoing commitment to upgrade, restore and expand existing properties. In 1988, performance will be enhanced by the impact of the Winter Olympics on the Calgary and mountain hotels, by a strong convention market in Central Canada, and by favourable business conditions in general.

Canadian Pacific Hotels Corporation

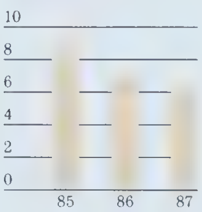
Net Income ($ millions)



Revenues ($ millions)



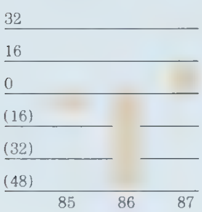
Return on Average Capital Employed (%)



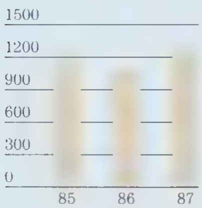
Manufacturing and Other

The Algoma Steel Corporation, Limited

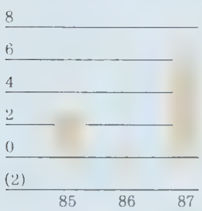
Net Income (Loss)
($ millions)



Revenues ($ millions)



Return on Average Capital Employed (%)



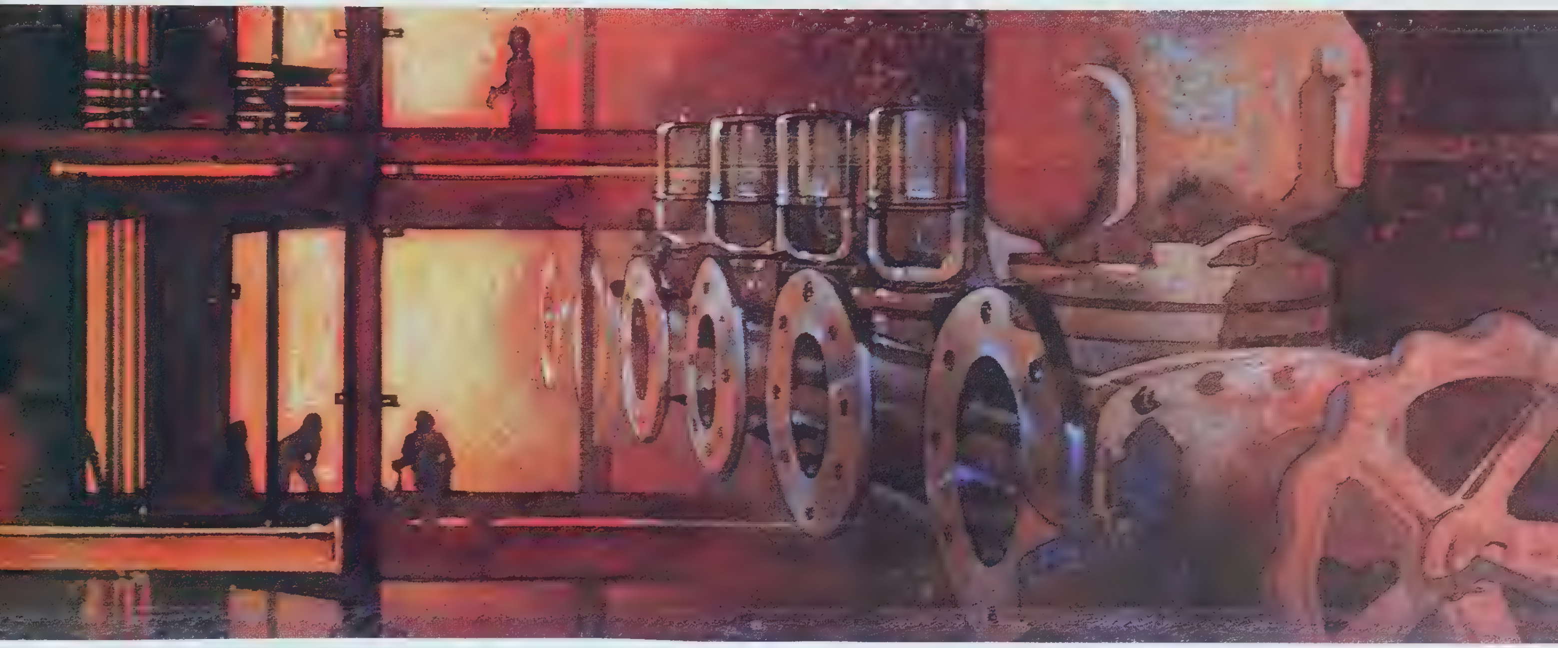
The Algoma Steel Corporation, Limited

Algoma Steel made considerable progress in 1987 in improving its financial performance. The company recorded its first profit since 1981, and CP Limited's 53.8% share amounted to $14.7 million, compared with losses of $45.5 million in 1986 and $7.6 million in 1985. Although sales volume, selling prices and product mix all improved during the year, the major factor in Algoma's turnaround was cost reduction under its Program of Action implemented in 1986.

In operating terms, the Program of Action involves the curtailment of costs through restructuring iron ore operations, lowering coal mine production costs and increasing coal sales, improving manufacturing efficiency and product quality, and moving towards 100% continuous casting. In 1987, the proportion of raw steel continuously cast increased to a record 75%, and improvements were achieved in casting rates, yields and quality. Strategic planning in 1987 has identified a number of specific opportunities to improve the quality and cost competitiveness of Algoma's products. In the two steelmaking shops, engineering is proceeding for ladle metallurgy that will allow Algoma to better meet product specifications and customer expectations in a cost-effective manner. A new continuous-round caster is being engineered to reduce the cost and improve the quality of seamless tubular products.

Markets for Algoma's sheet, plate, seamless tubular and structural products strengthened significantly in 1987, enabling some price recovery. An improved product mix and slightly higher volume contributed to more efficient operation of steelmaking and rolling mill facilities. The automotive market was healthy throughout 1987, providing good demand for hot and cold rolled sheet products; flat-rolled operations were at capacity for most of the year. Increased activity in non-residential construction resulted in greater demand for plate and structural products, and sales of certain higher-valued plate products reached record levels. Recovery in the North American energy sector in 1987 led to increased drilling activity and improved demand for Algoma's seamless tubular products. The expanded product range and better quality made possible by Algoma's new tube mill, which started up in 1987, and by modifications to the original mill also contributed to a more favourable product mix and significantly improved sales volume. An arrangement with Stelco is providing an opportunity to expand sales in non-oil-country tubular markets.

During 1987 Algoma entered into a partnership which owns and operates a tube and casing finishing facility in Edmonton, giving Algoma its first operating presence in Western Canada. Also in 1987 Algoma acquired, through a partnership, an equity position in an automotive parts manufacturer in Windsor, Ontario. This arrangement will expand the flat-rolled production base and help increase sales to the automotive sector. Effective January 1, 1988, Algoma exercised its option to become a 50% owner of Ferrum Inc., one of the company's major flat-rolled customers, which produces and markets welded tubing and hollow structurals.



New labour agreements with unions representing Canadian employees were signed in late May, 1987 in advance of the July 31 expiry date of the previous contracts. The one-year agreements restructured compensation packages to provide increased pension benefits without raising hourly employment costs. Wages and benefits of salaried employees, reduced in 1986, were restored in 1987 to their previous levels.

AMCA International Limited

During recent years, especially in 1986 and 1987, AMCA has made determined efforts to improve its financial position and restore profitability.

In 1986 AMCA undertook a major restructuring program involving the disposal of its construction products segment, the sale, consolidation or closure of several other operations, and a reduction in corporate overhead. Significant progress was made in 1987 with the generation of U.S. $179 million in cash and the reduction of debt by U.S. $146 million. However, one major element of the program, the sale of the BOMAG compaction equipment operation in West Germany, remains to be accomplished.

AMCA expanded its turnaround activities in 1987 by deciding to write down its investment in Giddings & Lewis to a more realistic valuation and by selling Manitoba Rolling Mills in early 1988. The proceeds of approximately $100 million from the sale will be used to repay debt and strengthen the remaining core businesses. These restructuring developments over the past two years resulted in significant charges, which are reflected in CP Limited's extraordinary items detailed in the Financial Review section and Note 3 of this Annual Report.

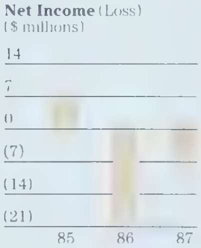
As a result of its restructuring activities and recent losses, AMCA's common equity has been impaired. CP Limited has confirmed its support for AMCA and will participate in the raising of any additional capital planned by AMCA, subject to acceptable terms and conditions. AMCA's objective is to raise up to U.S. $150 million.

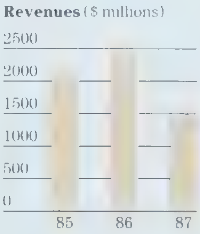
CP Limited's net losses from AMCA, which is 50.6% owned, amounted to $7.0 million in 1987 and $20.0 million in 1986, while in 1985 there was a profit of $6.2 million. CP Limited's share of AMCA's results includes dividend income from its holding of AMCA's preferred shares, which amounted to $9.9 million in each of 1987 and 1986 and $7.1 million in 1985.

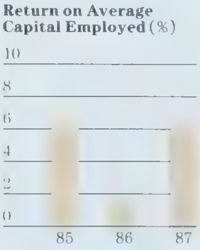
Included in AMCA's 1986 results was a charge of $29.9 million (or $15 million at CP Limited's level) representing a reduction in benefits previously recorded because of changes stemming from tax reform legislation in the United States. AMCA's results also included pension refunds of $13.7 million in 1987 and $10.7 million in 1986.

Over the past two years AMCA's businesses generally have been adversely affected by market weakness and competitive pressures resulting in low margins and disappointing sales activity. The segment that showed material improvement in 1987 was Steel Products and Services, where all units benefited from higher activity and there was a gain on settling a contract in Indonesia.

AMCA International Limited







Syracuse China Corporation

Net income from Syracuse China in 1987 amounted to $6.0 million, compared with $7.3 million in 1986 and $4.4 million in 1985. Sales volume in 1987 declined from 1986 and product mix was less favourable, reflecting increased competition. Productivity improvements, however, were a favourable factor. Income in 1986 was higher than in 1985, due largely to CP Limited's ownership of Syracuse China rising to 100% following the merger with Enterprises in late 1985.

CP Telecommunications

During 1987 the CNCP partnership conducted a review of its operations. As a consequence, assets identified as either obsolete or surplus were written down. The effect of these steps was a charge of $6.1 million, after tax, to CP Telecommunications' earnings, resulting in a net loss of $1.1 million in 1987. Excluding the unusual items, CP Telecommunications' earnings in 1987 of $5.0 million were down from $8.1 million in 1986 and $9.0 million in 1985. Growth in newer products and services only partially offset a decrease in Telex business. Cost reductions helped to minimize the impact.

The partnership has undergone a comprehensive strategy development process and is implementing an aggressive, customer-driven, marketing strategy. Services like MACH, a digital, integrated voice and data service for large business networks, and INFOSWITCH, a packet-switching shared data network, have shown promising growth in 1987, and new services devoted to new areas of customer requirement, like facsimile transmission, enhanced funds transfer and expanded voice services to the U.S. are being introduced.

During 1987 CNCP continued expanding its digital network to meet the growing demand for telecommunications services. Following completion of the fibre optics network in the east between Montreal, Ottawa, Toronto and Windsor, and in the west between Vancouver and Edmonton, work has now begun on a digital radio link between Edmonton and Toronto to be completed by late 1988.

Outlook

Demand for Algoma's plate and structural products should remain firm in 1988. Provided oil prices remain stable, demand for tubulars is expected to increase. The lower foreign exchange value of North American currencies should help limit import competition. Algoma's various new business arrangements with partners have strengthened the company's market position in tubular products, as well as in automotive-related sheet products which face the possibility of a downturn in 1988. On the labour front new agreements will have to be reached with Algoma's unions in 1988.

AMCA will continue to face volatile market conditions and competitive pricing, but has entered 1988 with an improved order backlog. Increased steel prices are affecting the Buildings segment's margins but Energy and Engineering has benefited from more stable oil prices. The recent acquisition of Waukesha Pumps will be reflected in the results of Industrial Products in 1988. The correction of the U.S. dollar and increased U.S. factory utilization have assisted the Machine Tools segment. In 1988, restructuring will proceed with the disposal of properties remaining from the 1986 program. AMCA expects 1988 results to improve because of increased operating earnings and reduced interest expense.

Syracuse China will continue to face intense import competition and expects that improved customer service will enable it to maintain market share and sales volume from current operations. The acquisition of a U.S. chinaware company early in 1988 should result in Syracuse China's current sales volume increasing by more than 50% in 1988.

The telecommunications needs of Canadian business will continue to grow. This growth, along with the changing regulatory environment, provides substantial opportunity for CP Telecommunications. New messaging services, continued development of private and switched network-based offerings, ongoing expansion of the digital network and increased emphasis on internal productivity provide the basis for this future growth.

Financial Review

Left to right: Ronald K. Gamey, Group Vice-President, George F. Michals, Vice-President Finance and Accounting, James F. Hankinson, Group Vice-President, C.R.O. Munro, Q.C., Vice-President Law and General Counsel.

Consolidated Highlights

As a result of the additional restructuring measures in 1987, the Company's businesses were re-grouped from seven into five sectors and the presentation of the income statement was revised accordingly. Businesses sold over recent years, mainly Maple Leaf Mills Limited, Canadian Pacific Air Lines, Limited and Cominco Ltd., are shown separately under Discontinued Businesses.

Favourable market conditions, coupled with further steps to redirect the Company, made 1987 a year of marked recovery. Consolidated net income before extraordinary items amounted to $636.7 million, up sharply over $150.1 million in 1986 and $252.7 million in 1985.

Earnings per Ordinary share increased to $2.12 from $0.50 in 1986 and $1.14 in 1985. Per share amounts are based on a weighted average number of Ordinary shares outstanding of 300.5 million in 1987, 298.3 million in 1986 and 220.8 million in 1985. The significant increase in 1986 over 1985 arose from the issuance of additional shares in exchange for common shares held by minority shareholders of Enterprises under the terms of the merger in December 1985.

After extraordinary items, CP Limited's consolidated net income amounted to $826.3 million, or $2.75 per Ordinary share, in 1987, in contrast to a net loss of $80.3 million, or $0.27 per share, in 1986.

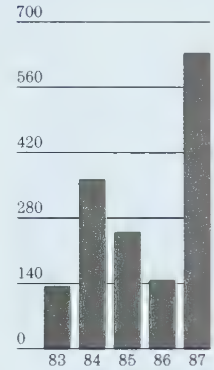
Extraordinary income of $189.6 million in 1987 included gains of $172.5 million on the sale of Canadian Pacific Air Lines, $20.8 million on selling a CP Ships office building and $160.8 million on the sale of Maple Leaf Mills. These gains were offset by charges of $100.7 million reflecting a write-down of AMCA's assets in its Machine Tools segment, $23.5 million in respect of an additional restructuring charge by AMCA, and $40.3 million representing a provision for a loss on the future disposal of leased hotel properties in West Germany. In 1986, extraordinary charges of $230.4 million consisted of a charge of $362.5 million representing the write-down in the value of certain assets and gains totalling $132.1 million on the sale of Cominco and CP Hotels' flight kitchens.

Although all five sectors showed improved results in 1987 over 1986, the major contributors to CP Limited's better performance were Transportation, Energy, Forest Products, and Manufacturing and Other. Details of revenues and expenses of CP Limited's businesses are provided in Note 1 of the financial statements.

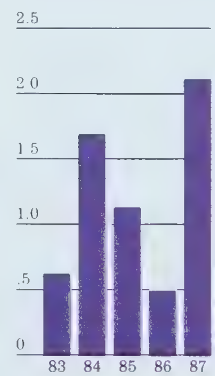
CP Rail was chiefly responsible for the improvement in results of the Transportation sector in 1987. CP Rail's revenues were up 9%, most of which was attributable to higher shipments of grain. Volumes of coal and forest products also increased. Its expenses rose 6%, reflecting mainly the higher traffic, partially offset by the effects of greater operating efficiencies. In addition, Transportation results in 1986 reflected a substantial restructuring charge by Soo Line.

Income from the Energy sector was up sharply over 1986, when PanCanadian's results included an unusual charge representing a ceiling test write-down of reserves. PanCanadian's total revenues were down 3%, as lower natural gas prices and reduced prices and volume of natural gas liquids more than offset the benefits of improved oil prices. PanCanadian's

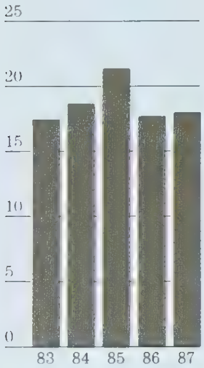
Consolidated Net Income
before extraordinary items
($ millions)



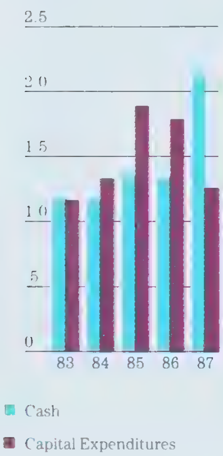
Consolidated Earnings per Ordinary Share
before extraordinary items
($)



Total Assets
($ billions)



Cash from Operations and Capital Expenditures
($ billions)



expenses, excluding unusual items, were 7% lower, reflecting cost curtailment and the elimination of the Petroleum and Gas Revenue Tax effective October 1, 1986.

Both Forest Product companies experienced significant growth in sales, up 19% in total, reflecting improved product prices and higher shipments. Expenses increased only 12%, due to the effects of improved operating efficiencies.

A turnaround in results of the Manufacturing and Other sector was largely attributable to Algoma Steel. While Algoma's revenues rose 13%, reflecting increased shipments, up 5%, and improvement in selling prices and product mix, expenses were up only 4%, due to its major cost reduction program.

The reduction in CP Limited's income in 1986 from 1985 reflected not only significant items in 1986, such as PanCanadian's unusual charge and Soo Line's restructuring charge, but also the decline in world oil prices affecting both PanCanadian's results and Algoma Steel's sales of tubular products used for oil and gas drilling.

Asset Management, Liquidity and Capital Resources

After reaching a peak of $21.3 billion by the end of 1985, the Company's consolidated assets declined to $17.7 billion at year-end 1986 and $18.0 billion at the end of 1987. Major developments that affected the asset mix over the period were:

1987
- sale of Canadian Pacific Air Lines in January;
- sale of a CP Ships office building in London, England in March;
- sale of Maple Leaf Mills in August;
- write-downs in the fourth quarter in respect of AMCA, and the leased hotels in West Germany;
- divestment of certain assets and operations of Soo Line, AMCA, CP Ships and CP Trucks.

1986
- sale of the Company's 52.6% interest in Cominco;
- sale of certain assets and operations of AMCA, CP Hotels, Marathon Realty, Soo Line and CP Ships;
- write-downs in respect of the Container and Bulk Shipping fleet and the assets and operations of Algoma Steel and AMCA.

In addition, holdings in Fording Coal and AMCA were consolidated in 1986 through the acquisition of Cominco's 40% interest in Fording, giving CP Limited 100% ownership of Fording, and the purchase of Algoma's 34.5% interest in AMCA, thus increasing CP Limited's direct ownership of AMCA to 50.6%.

CP Limited's restructuring measures, together with stronger earnings, contributed to a significant upturn in its rates of return on average capital employed and shareholders' equity. In 1987, the return on average capital employed increased to 8.1% from 4.7% in 1986 and 5.9% in 1985, and the return on average shareholders' equity rose to 10.4% in 1987 from 2.5% in 1986 and 4.8% in 1985.

After improving in 1986, the consolidated cash position showed significant strengthening in 1987, as cash from operating activities of $2.1 billion and from further asset sales of $1.2 billion was considerably in excess of additions to investments and properties which amounted to $1.4 billion. While new borrowings were made, these were about half the amount of total debt reduction during 1987. These changes led to an improvement in the ratio of cash flow to total debt to 34.7% in 1987 from 24.6% in 1986 and 18.2% in 1985. The debt:equity ratio improved to 38:62 at year-end 1987 from 43:57 at the end of 1986 and 46:54 at year-end 1985. The Company's higher earnings, along with lower interest expense, contributed to an improvement in the interest coverage ratio to 3.6 times from 1.5 times in 1986 and 1.9 times in 1985.

Earnings recovery and the healthier financial position permitted the Company to increase its quarterly dividends on the Ordinary shares to $0.15 per share from the previous rate of $0.12.

Continuing the program begun in 1986, most of the Company's businesses achieved further debt reduction in 1987. As a result, CP Limited's

consolidated long term debt was down by $645 million, or 13%, during the year. The most significant reductions were attributable to AMCA, Soo Line and CIP. AMCA's net debt declined $188 million through the use of proceeds from divestitures; AMCA also redeemed certain preferred shares. Proceeds from the sale of the Lake States division were used by Soo Line to pay down a revolving credit commitment and repay mortgage bonds with the result that Soo Line's net debt was reduced by $187 million. Improved cash from operations, together with an equity infusion by CP Limited of $58 million, enabled CIP to reduce its net debt by $187 million.

The only material net debt increase during 1987 was $189 million in respect of Marathon Realty, reflecting additional construction financing and the acquisition of interests in six shopping centres in the United States. Notwithstanding the additional debt, Marathon's debt: equity ratio at year-end 1987 was unchanged from the prior year end.

As detailed in AMCA's section of the Review of Operations, AMCA intends to raise up to U.S. $150 million in 1988 in order to replenish its equity.

Capital Expenditures and Commitments

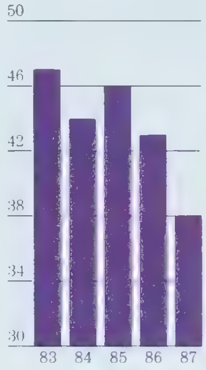
To protect the earnings base and meet present and prospective demand for services and products, the Company's businesses have been modernizing, upgrading, replacing and expanding. Capital and investment spending on such projects aggregated $1.4 billion in 1987. This amount was down from $2.0 billion in 1986 and $1.9 billion in 1985, mainly because of the sale of businesses, particularly Cominco and Canadian Pacific Air Lines, and reduced spending by CP Rail and Algoma Steel.

Capital expenditures of CP Rail totalled $317 million in 1987 primarily for ongoing renewals and improvements to property and rolling stock and also for its Rogers Pass double tracking and grade reduction project to be completed in early 1989. Marathon invested $283 million to acquire interests in six shopping centres in the U.S. and to develop office buildings and shopping centres. PanCanadian's capital expenditures amounting to $214 million were up 24% over 1986, and included $150 million on exploration activities principally in Canada. Improvements and replacements at CIP, particularly for newsprint, totalled $120 million in 1987. CP Hotels, under a four-year program of renovation, upgrading and expansion, incurred capital expenditures for the year of $100 million.

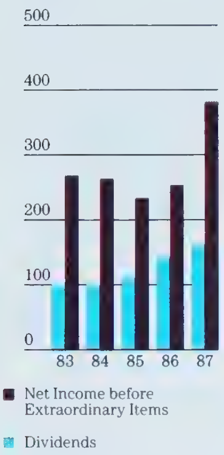
Early in 1988 CP Hotels announced the acquisition of the nine-property CN Hotel chain for $260 million. In addition to this factor, consolidated capital spending for CP Limited is expected to rise in 1988, reflecting mainly stepped-up maintenance and improvements as well as capacity expansion in the Forest Products sector.

Commitments for CP Limited's capital expenditures totalled $396 million at year-end 1987. These cover chiefly Marathon's construction and development projects, CP Rail's continuing replacement and expansion program, and the forest product companies' modernization and expansion activities. Internal funds or available lines of credit will provide the financing for these projects. As described in Note 20, unused commitments for long term financing were $1,533 million at the end of 1987, and unused lines of credit for short term financing amounted to $931 million.

Debt to Total Capitalization
(%)



Non-Consolidated Net Income and Ordinary Share Dividends
($ millions)



Non-Consolidated Financial Review

CP Limited's non-consolidated earnings, consisting largely of income from CP Rail, CP Telecommunications and dividends from subsidiaries, amounted before extraordinary items to $381.1 million in 1987, $252.9 million in 1986 and $233.6 million in 1985. The higher income in 1987 compared with 1986 was primarily the result of increased earnings from CP Rail. The 1986 improvement over 1985 reflected largely the effects on dividend income of CP Limited's greater ownership of the subsidiaries of Enterprises following the merger in late 1985.

Earnings per Ordinary share, excluding extraordinary items, amounted to $1.27 in 1987, $0.85 in 1986 and $1.05 in 1985. The decrease in 1986 from 1985 reflected the higher number of shares outstanding following the merger with Enterprises.

In 1987 extraordinary income amounted to $262.7 million and stemmed from the sale of Canadian Pacific Air Lines, whereas in 1986 there was an extraordinary charge of $250.9 million representing the amount of the permanent impairment in the value of CP Limited's investment in CP (Bermuda) because of the reduction in the fleet value that year.

Assets of the parent company rose to $7.9 billion at year-end 1987 from $7.1 billion at the end of 1986 and $6.9 billion at year-end 1985. The growth reflected chiefly increased cash. Equity per Ordinary share was $15.07, $13.45 and $13.90 at the end of 1987, 1986 and 1985, respectively. After being 24:76 at the end of 1986, the debt:equity ratio returned to 21:79 at year-end 1987, the same as in 1985. Interest coverage improved to 6.1 times in 1987 from 4.2 times in 1986 and 4.5 times in 1985.

In 1987 cash from operations totalling $770 million and proceeds from disposal of investments amounting to $625 million were used principally to fund additions to properties of $337 million and dividend payments of $154 million, leaving cash at year-end 1987 of $693 million. This was a significant improvement compared with short term debt of $287 million at year-end 1986 and $155 million at the end of 1985.

Of the proceeds from disposal of investments during 1987, $300 million came from selling Canadian Pacific Air Lines. In addition, CP Limited retained $299 million of the proceeds from the sale of Maple Leaf Mills.

1987 Financial Statements

Summary of Significant Accounting Policies

The consolidated financial statements of Canadian Pacific Limited (CP Limited) have been prepared in accordance with accounting principles generally accepted in Canada. The major differences between Canadian and United States generally accepted accounting principles, insofar as they apply to CP Limited, are described under Supplementary Data (see page 54).

Unless otherwise specified, all dollar amounts are expressed in Canadian dollars.

Basis of Consolidation
The consolidated financial statements include the assets and liabilities and results of operations of all subsidiary companies. The statements have been designed to present the contribution to consolidated income from CP Limited's principal classes of business: Transportation, Energy, Forest Products, Real Estate and Hotels, and Manufacturing and Other. The business segments are based upon the major activities of significant subsidiaries and divisions of CP Limited.

With the exception of CP Rail and CP Telecommunications, whose results reflect interest, corporate overhead and income tax allocations made by CP Limited, the results of other entities are based upon their reported net incomes adjusted, where applicable, for acquisition-related costs.

The principal companies and divisions included in each business segment are as follows:

	December 31 1987	1986	1985
	Percentage Ownership		
Transportation			
CP Rail(1)			
Soo Line Corporation	55.8%	55.8%	55.8%
CP Ships			
Centennial Shipping Limited	100	100	100
Racine Terminal (Montreal) Limited	100	100	100
Canadian Pacific (Bermuda) Limited	100	100	100
CP Trucks			
Canadian Pacific Express & Transport Ltd.	100	100	100
CanPac International Freight Services Inc.	100	100	100
Energy			
PanCanadian Petroleum Limited	87.1	87.1	87.1
Fording Coal Limited(2)	100	100	81.1
Forest Products			
CIP Inc.	100	100	100
Great Lakes Forest Products Limited	54.3	54.3	54.3
Real Estate and Hotels			
Marathon Realty Company Limited	100	100	100
Canadian Pacific Hotels Corporation	100	100	100
Manufacturing and Other			
The Algoma Steel Corporation, Limited	53.8	53.8	61.2
AMCA International Limited(3)	50.6	50.6	37.2
Syracuse China Corporation	100	100	100
CP Telecommunications(1)			
Other(4)			

(1) CP Rail and CP Telecommunications are divisions of CP Limited.
(2) The ownership percentage for 1985 reflects a direct holding of 60% and an indirect holding of 21.1% through CP Limited's 52.6% interest in Cominco Ltd. In February 1986, CP Limited, by purchasing Cominco Ltd.'s investment in Fording Coal Limited, increased its ownership interest in the latter to 100%. CP Limited's investment in Cominco Ltd. was sold in October 1986.
(3) The ownership percentage for 1985 reflects a direct holding of 16.1% and an indirect holding of 21.1% through CP Limited's investment in The Algoma Steel Corporation, Limited (Algoma). In August 1986, CP Limited, by purchasing Algoma's investment in AMCA International Limited, increased its ownership interest in the latter to 50.6%.
(4) Includes the results from several small subsidiary companies and partnership interests and the results from CP Limited parent corporation activities other than from CP Rail and CP Telecommunications.

Intercompany Transactions
Total revenues and expenses as reported in the statement of consolidated income reflect the elimination of intercompany transactions. Intercompany transactions and balances have also been eliminated in the Corporation's statement of changes in consolidated financial position and consolidated balance sheet.

Furthermore, unrealized profit on intercompany transactions is eliminated in the determination of consolidated net income. Accordingly, an after-tax profit of $33 million in 1987 that arose from the sale of land by CP Rail to Marathon Realty Company Limited, has been eliminated from the results of Transportation in the statement of consolidated income on page 29.

Charges between entities within the same business segment are eliminated in the determination of total revenues and expenses for that business segment. Accordingly, in reporting the results of Transportation in the statement of consolidated income on page 29, the following amounts, representing intra-segment charges for services by CP Rail, CP Ships and CP Trucks, have been eliminated from revenues and expenses: 1987 – $55 million; 1986 – $54.6 million; 1985 – $59.3 million. Also, in reporting the results of Manufacturing and Other, the following amounts, representing charges for structural steel and plate by The Algoma Steel Corporation, Limited to AMCA International Limited, have been eliminated from revenues and expenses: 1987 – $23.8 million; 1986 – $30.8 million; 1985 – $36.6 million.

Charges between entities engaged in different business segments, which are made at normal tariff or other arm's length rates, are not eliminated in reporting revenues and expenses by business segment. Consolidated net income is not affected by this practice. Services provided by the Corporation's Transportation segment to other business segments yielded revenues in 1987 of $200.7 million (1986 – $258.8 million; 1985 – $255.5 million). Interest revenue, included in Manufacturing and Other, on loans to other business segments amounted to $71.9 million in 1987 (1986 – $93 million; 1985 – $95 million). Other charges between business segments amounted to $95.3 million in 1987 (1986 – $90.6 million; 1985 – $92.8 million).

Earnings per Ordinary Share
Earnings per Ordinary Share are calculated after providing for dividends on the Corporation's Preference Shares using the weighted average number of Ordinary Shares outstanding during the year.

Foreign Currency Translation
Foreign currency assets and liabilities of CP Limited's Canadian operations are translated into Canadian dollars at the year-end exchange rate, while foreign currency revenues and expenses are translated at the exchange rate in effect on the dates of the related transactions. With the exception of unrealized gains and losses on long term monetary assets and liabilities, which are being amortized to income over the remaining lives of the related items, foreign currency gains and losses are included in income immediately.

The accounts of CP Limited's foreign subsidiaries are translated into Canadian dollars using the year-end exchange rate for assets and liabilities and the average rates in effect for the year for revenues and expenses. Exchange gains or losses arising from translation are deferred and included under Shareholders' Equity as Foreign Currency Translation Adjustments. Also included as a foreign currency translation adjustment is the exchange credit arising from translation of the Corporation's Perpetual 4% Consolidated Debenture Stock.

Pensions
Commencing in 1987, the Corporation and its subsidiaries adopted the new Canadian standard covering accounting for pension costs and obligations. The new basis of accounting and its impact on the Corporation's 1987 results are described more fully in notes 2 and 19 to the consolidated financial statements.

Inventories
Rail materials and supplies, which consist primarily of fuel oil, repair or replacement materials for road and equipment property, are valued at average cost.

Raw materials and supplies are valued at the lower of cost and replacement cost.

Work in progress related to construction contracts is stated at accumulated production costs less amounts charged to income based on the percentage of completion of individual contracts.

Finished goods are valued at the lower of cost and net realizable value.

Properties
Transportation: Maintenance and repairs are charged to expenses as incurred. Major additions and replacements generally are capitalized with the exception of the following CP Rail expenditures which are charged to expenses: labour costs relating to track structure replacements; renewals of parts of units of railway property which do not constitute ''major renewals'' as defined by the Uniform Classification of Accounts for railways subject to regulation by the National Transportation Agency of Canada.

Depreciation is calculated on the straight-line basis at rates based upon the estimated service lives of depreciable property. For railway properties, the rates used by CP Rail are as authorized by the National Transportation Agency of Canada and by the Interstate Commerce Commission for the Soo Line Railroad Company. When railway depreciable property is retired or otherwise disposed of, the book value, less net salvage, is charged to accumulated depreciation.

Estimated service lives used for principal categories of transportation properties are as follows:

	Years
Railway	
– road diesel locomotives	22 to 40
– freight cars	25 to 51
– ties	28
– rails – in first position	21
– in other than first position	45
Ships	20
Trucks and trailers	7 to 12

Energy: PanCanadian Petroleum Limited (PanCanadian) follows the full cost method of accounting for oil and gas properties, whereby all costs related to the exploration for and the development of conventional oil and natural gas reserves are capitalized on a country-by-country cost centre basis. Costs accumulated within each cost centre are depleted and depreciated using the unit of production method, based on estimated proven reserves, with net production and reserve volumes of natural gas and natural gas liquids converted to equivalent energy units of crude oil.

In determining the depletion and depreciation provisions, PanCanadian includes any excess of the net book value of conventional oil and natural gas assets over the unescalated, undiscounted future net operating revenues from its proven oil and natural gas reserves for each cost centre (ceiling test). A second ceiling test calculation is conducted on an enterprise basis by including in the depletion and depreciation provisions any excess of the net book value of conventional oil and natural gas assets for all cost centres, over the total unescalated, undiscounted future net operating revenues from proven oil and natural gas reserves less future general and administrative expenses, financing costs, and income taxes. Prices utilized in the ceiling test calculations are the weighted average product prices prevailing at year end which PanCanadian receives for its production.

Depreciation of conventional oil and natural gas plant, production and other equipment is provided for on the unit of production basis. The Empress and Syncrude facilities and the methanol plant are depreciated on the straight-line basis.

Expenditures by Fording Coal Limited to acquire, explore for and develop identified coal properties are capitalized, net of costs relating to raw coal production during the development phase, pending evaluation and completion. Expenditures on general exploration for producing properties are charged against income as incurred.

Abandoned coal properties are charged against income in the year of abandonment.

Depletion on operating mines is provided using a unit of production method based on the proven mineral reserve position.

Interest on funds borrowed to finance major energy projects is capitalized during the construction period.

Forest Products: Plants and properties are stated at cost. Pulp and paper mills are depreciated either on a straight-line or on a unit of production basis, over their estimated economic lives. Other plants are depreciated on a straight-line basis over their estimated economic lives.

Interest on debt incurred to finance major expansion programs is capitalized during the construction period.

Real Estate and Hotels: Real estate and hotel properties are stated at cost, except for land held for sale which is stated at the lower of cost and net realizable value. Cost includes carrying costs, principally real estate taxes, interest, the applicable portion of salaries and expenses of development personnel and, for income properties, initial leasing costs.

All operating and carrying costs net of rental revenues are capitalized for income properties under construction until a satisfactory level of occupancy is obtained, subject to a reasonable maximum period of time. Income from land sales is recorded in proportion to cash received when all material conditions of the contract have been fulfilled while income from sales of income properties is recorded in proportion to proceeds realized.

The sinking fund method of providing depreciation is used for the majority of buildings. This method will write off the cost of the buildings over their estimated useful lives (up to a maximum of 40 years) in a series of annual instalments increasing at the rate of 5% compounded annually.

Manufacturing and Other: Property, plant and equipment are recorded at cost which, in the case of new manufacturing facilities, includes interest during construction. Maintenance and repairs are expensed as incurred excepting expenditures for periodic relines of blast furnaces which are accrued for in advance on a unit of production basis.

Depreciation of plant and equipment is provided principally on a straight-line basis at rates intended to amortize the cost of these assets over their estimated economic lives.

Statement of Consolidated Income

For the Year ended December 31		1987	1986	1985
		(in millions, except amounts per share)		
Transportation	Revenues	$ 4,425.9	$ 4,200.0	$ 4,046.5
	Expenses including income taxes	4,199.6	4,127.7	3,931.8
		226.3	72.3	114.7
	Minority interest	(3.4)	(21.0)	6.3
	Net income	229.7	93.3	108.4
Energy	Revenues	988.7	1,043.6	1,407.3
	Expenses including income taxes	807.7	884.8	1,084.7
		181.0	158.8	322.6
	Unusual item (Note 2)	—	94.8	—
		181.0	64.0	322.6
	Minority interest	23.4	8.8	120.7
	Net income	157.6	55.2	201.9
Forest Products	Revenues	2,784.2	2,333.4	2,248.7
	Expenses including income taxes	2,562.7	2,287.8	2,266.9
		221.5	45.6	(18.2)
	Minority interest	51.5	16.4	(1.4)
	Net income	170.0	29.2	(16.8)
Real Estate and Hotels	Revenues	660.3	644.2	572.9
	Expenses including income taxes	611.3	600.3	526.5
		49.0	43.9	46.4
	Minority interest	0.8	0.7	8.6
	Net income	48.2	43.2	37.8
Manufacturing and Other	Revenues	3,182.4	3,961.5	3,777.2
	Expenses including income taxes	3,122.5	4,033.0	3,757.5
		59.9	(71.5)	19.7
	Minority interest	29.4	(22.1)	29.4
	Net income	30.5	(49.4)	(9.7)
Net income from continuing businesses		636.0	171.5	321.6
Discontinued Businesses	Revenues	535.0	3,373.5	3,518.7
	Expenses including income taxes	532.0	3,410.7	3,670.5
		3.0	(37.2)	(151.8)
	Minority interest	2.3	(15.8)	(82.9)
	Net income	0.7	(21.4)	(68.9)
Total revenues		12,208.6	15,113.8	15,128.0
Total expenses including income taxes and minority interest		11,571.9	14,963.7	14,875.3
Net income before extraordinary items		636.7	150.1	252.7
Extraordinary items (Note 3)		189.6	(230.4)	—
Net Income		$ 826.3	$ (80.3)	$ 252.7
Earnings per Ordinary Share				
Before extraordinary items		$ 2.12	$ 0.50	$ 1.14
After extraordinary items		$ 2.75	$ (0.27)	$ 1.14

See Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

Statement of Consolidated Retained Income

For the Year ended December 31	**1987**	1986	1985
		(in millions)	
Balance, January 1	**$ 3,403.8**	$ 3,637.9	$ 3,496.3
Net income	**826.3**	(80.3)	252.7
Gain (loss) arising from the increase (decrease) in shareholders' equity of subsidiaries due to the issuance of common shares	**—**	(10.1)	1.7
	4,230.1	3,547.5	3,750.7
Dividends			
7¼% Preferred shares	**—**	—	0.2
4% Preference shares	**0.5**	0.5	0.5
Ordinary shares (per share: 1987 – 54¢; 1986 – 48¢; 1985 – 47.67¢)	**162.4**	143.2	112.1
Total dividends	**162.9**	143.7	112.8
Balance, December 31	**$ 4,067.2**	$ 3,403.8	$ 3,637.9

See Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

Statement of Changes in Consolidated Financial Position

For the Year ended December 31	1987	1986	1985
		(in millions)	
Operating Activities			
Net income before extraordinary items	$ **636.7**	$ 150.1	$ 252.7
Depreciation, depletion and amortization	**752.5**	967.0	978.2
Deferred income taxes	**225.5**	114.9	19.7
Minority shareholders' interest in income of subsidiaries	**104.0**	(33.1)	80.7
Unusual item	**—**	94.8	—
Other operating cash items, net	**64.5**	133.5	94.9
Cash from operations, before changes in working capital	**1,783.2**	1,427.2	1,426.2
Decrease (increase) in non-cash working capital balances relating to operations (Note 5)	**343.7**	(97.0)	(83.2)
Cash from operations	**2,126.9**	1,330.2	1,343.0
Dividends			
Paid to shareholders of the corporation	**(153.5)**	(143.0)	(102.7)
Paid to minority shareholders of subsidiaries	**(63.2)**	(83.3)	(133.4)
	(216.7)	(226.3)	(236.1)
Financing Activities			
Issuance of long term debt	**616.5**	737.3	1,270.1
Repayment of long term debt	**(1,164.8)**	(1,091.2)	(789.2)
Issuance of shares by subsidiaries	**2.8**	24.3	129.1
Redemption of Preferred shares by subsidiaries	**(89.9)**	(33.1)	(102.8)
Preferred shares purchased for cancellation	**—**	—	(10.8)
Issuance of Ordinary shares by the corporation	**68.7**	29.5	1,469.5
	(566.7)	(333.2)	1,965.9
Investing Activities			
Acquisition of minority common shareholders' interest in a subsidiary	**—**	—	(1,407.7)
Acquisitions of subsidiaries and businesses	**(135.6)**	(11.0)	(304.7)
Additions to investments and properties	**(1,414.2)**	(2,002.2)	(1,927.0)
Sales of subsidiaries, investments and properties	**1,232.7**	1,556.4	244.2
	(317.1)	(456.8)	(3,395.2)
Cash Position*			
Increase (decrease) in cash	**1,026.4**	313.9	(322.4)
Cash (deficit) at beginning of year	**(330.9)**	(644.8)	(322.4)
Cash (deficit) at end of year	$ **695.5**	$ (330.9)	$ (644.8)

*Cash comprises cash and temporary investments net of bank loans and notes and accrued interest payable.

See Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

Consolidated Balance Sheet
December 31

Assets		1987		1986
		(in millions)		
Current Assets				
Cash and temporary investments, at cost (approximates market)	$	**1,165.8**	$	173.4
Accounts receivable		**1,730.1**		1,874.8
Inventories (Note 8)		**1,190.9**		1,268.8
Other current assets		**260.7**		528.8
		4,347.5		3,845.8
Investments (Note 9)		**418.4**		346.6
Properties, at cost (Note 10)				
Transportation		**7,767.8**		8,075.9
Energy		**3,951.9**		3,727.8
Forest Products		**2,853.3**		2,703.1
Real Estate and Hotels		**2,591.4**		2,201.8
Manufacturing and Other		**2,702.9**		2,688.1
Discontinued Businesses		**—**		275.3
		19,867.3		19,672.0
Less: Accumulated depreciation, depletion and amortization		**7,029.1**		6,858.7
		12,838.2		12,813.3
Other Assets and Deferred Charges		**396.6**		693.0
	$	**18,000.7**	$	17,698.7

Auditors' Report

To the Shareholders of Canadian Pacific Limited:
We have examined the consolidated balance sheets of Canadian Pacific Limited as at December 31, 1987 and 1986 and the statements of consolidated income, consolidated retained income and changes in consolidated financial position for each of the three years in the period ended December 31, 1987. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1987 and 1986 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1987 in accordance with generally accepted accounting principles in Canada which, except for the change in accounting for pension costs and obligations, with which we concur and which is described in Note 2 to the financial statements, have been consistently applied.

Price Waterhouse.

Chartered Accountants,
Montreal, Quebec,
March 11, 1988.

Liabilities		**1987**		1986
		(in millions)		
Current Liabilities				
Bank loans	$	**302.2**	$	292.6
Accounts payable and accrued liabilities		**2,191.0**		2,087.1
Notes and accrued interest payable		**168.1**		211.7
Income and other taxes payable		**245.8**		68.5
Dividends payable		**52.4**		40.9
Long term debt maturing within one year (Note 11)		**614.6**		613.7
		3,574.1		3,314.5
Deferred Liabilities		**252.4**		278.2
Long Term Debt (Note 11)		**3,855.2**		4,501.0
Perpetual 4% Consolidated Debenture Stock (Note 12)		**197.7**		184.6
Deferred Income Taxes		**2,146.6**		1,946.2
Deferred Income Credits (Note 13)		**374.2**		347.6
Minority Shareholders' Interest in Subsidiary Companies (Note 14)		**1,139.0**		1,344.7
Shareholders' Equity (Note 15)				
Preferred and Preference Shares		**14.9**		14.9
Ordinary Shares				
Issued – 302,791,388 (1986 – 299,545,111) shares		**858.7**		790.0
Premium on securities		**1,182.6**		1,182.6
Other paid-in surplus		**161.2**		162.3
Foreign currency translation adjustments		**176.9**		228.3
Retained income		**4,067.2**		3,403.8
		6,461.5		5,781.9
	$	**18,000.7**	$	17,698.7

See Summary of Significant Accounting Policies and
Notes to Consolidated Financial Statements.

Approved on behalf of the Board:

Robert W. Campbell
Director

W. W. Atkinson
Director

1. Net Income

	1987	1986	1985
		(in millions)	
CP Rail			
Revenues			
Freight	$ **2,622.6**	$ 2,402.8	$ 2,331.6
Passenger	**51.8**	58.8	67.1
Other	**91.4**	92.9	88.9
Government payments	**28.4**	17.4	31.5
	2,794.2	2,571.9	2,519.1
Expenses including income taxes			
Maintenance	**740.2**	701.2	710.5
Transportation	**915.3**	868.6	858.6
General and administrative	**484.6**	487.8	473.9
Depreciation and amortization	**136.8**	137.7	126.6
Fixed charges	**100.1**	100.3	69.0
Income taxes	**221.3**	156.9	147.1
	2,598.3	2,452.5	2,385.7
Net income	$ **195.9**	$ 119.4	$ 133.4
Soo Line Corporation			
Revenues	$ **819.7**	$ 889.8	$ 848.1
Expenses including income taxes			
Maintenance	**171.8**	200.4	222.0
Traffic and other operating	**478.8**	510.7	507.1
General and administrative	**50.7**	67.4	41.6
Employee and equipment reduction charges	**—**	113.5	—
Loss on sale of Lake States Division	**31.5**	—	—
Depreciation and amortization	**53.7**	57.5	55.9
Interest	**53.0**	56.8	51.7
Income taxes	**(9.6)**	(56.5)	(14.6)
	829.9	949.8	863.7
	(10.2)	(60.0)	(15.6)
Minority interest	**(4.5)**	(26.5)	(6.9)
Net income	$ **(5.7)**	$ (33.5)	$ (8.7)
CP Ships			
Revenues	$ **420.8**	$ 367.9	$ 352.9
Expenses including income taxes			
Maintenance	**13.5**	18.1	20.2
Other operating	**263.8**	228.5	215.3
Selling, general and administrative	**60.5**	61.0	54.7
Depreciation and amortization	**23.4**	33.3	47.1
Interest	**9.8**	15.3	15.0
Income taxes	**5.7**	6.1	6.5
	376.7	362.3	358.8
	44.1	5.6	(5.9)
Minority interest	**1.1**	5.5	13.2
Net income	$ **43.0**	$ 0.1	$ (19.1)

1. Net Income (cont'd)

	1987	1986	1985
		(in millions)	
CP Trucks			
Revenues	**$ 446.2**	$ 424.9	$ 385.7
Expenses including income taxes			
Maintenance	**27.8**	28.4	25.9
Other operating	**318.2**	301.6	280.1
Selling, general and administrative	**73.9**	58.1	54.8
Depreciation and amortization	**18.2**	16.6	15.3
Interest	**5.9**	5.8	5.3
Income taxes	**5.7**	7.1	1.5
	449.7	417.6	382.9
Net income	**$ (3.5)**	$ 7.3	$ 2.8
Net Income – Transportation	**$ 229.7**	$ 93.3	$ 108.4
PanCanadian Petroleum Limited			
Revenues	**$ 698.7**	$ 717.0	$ 1,137.1
Expenses including income taxes			
Cost of goods sold	**186.3**	219.1	261.5
Selling, general and administrative	**40.6**	45.8	44.0
Depreciation, depletion and amortization	**171.6**	157.1	139.3
Interest	**9.5**	22.4	25.6
Petroleum and gas revenue taxes	**—**	24.5	96.3
Income taxes	**124.8**	106.4	264.9
	532.8	575.3	831.6
	165.9	141.7	305.5
Unusual item (Note 2)	**—**	94.8	—
	165.9	46.9	305.5
Minority interest	**23.4**	7.8	111.0
Net income	**$ 142.5**	$ 39.1	$ 194.5
Fording Coal Limited			
Revenues	**$ 290.0**	$ 326.6	$ 270.2
Expenses including income taxes			
Cost of goods sold	**127.5**	150.6	123.4
Distribution, selling, general and administrative	**122.4**	121.5	97.5
Depreciation, depletion and amortization	**14.9**	16.6	15.4
Interest	**3.2**	5.2	5.3
Income taxes	**6.9**	15.6	11.5
	274.9	309.5	253.1
	15.1	17.1	17.1
Minority interest	**—**	1.0	9.7
Net income	**$ 15.1**	$ 16.1	$ 7.4
Net Income – Energy	**$ 157.6**	$ 55.2	$ 201.9

1. Net Income (cont'd)	**1987**	1986	1985
		(in millions)	
CIP Inc.			
Revenues	**$ 1,934.0**	$ 1,602.1	$ 1,569.8
Expenses including income taxes			
Cost of goods sold	**1,460.0**	1,307.3	1,328.8
Selling, general and administrative	**77.4**	59.9	65.0
Depreciation, depletion and amortization	**100.3**	93.6	95.5
Interest	**70.6**	105.0	116.4
Income taxes	**100.4**	20.7	(17.5)
	1,808.7	1,586.5	1,588.2
	125.3	15.6	(18.4)
Minority interest	**7.5**	2.7	(1.8)
Net income	**$ 117.8**	$ 12.9	$ (16.6)
Great Lakes Forest Products Limited			
Revenues	**$ 850.2**	$ 731.3	$ 678.9
Expenses including income taxes			
Cost of goods sold	**594.4**	587.2	585.7
Selling, general and administrative	**19.8**	15.9	15.7
Depreciation, depletion and amortization	**46.3**	46.1	49.4
Interest	**14.8**	23.8	25.1
Income taxes	**78.7**	28.3	2.8
	754.0	701.3	678.7
	96.2	30.0	0.2
Minority interest	**44.0**	13.7	0.4
Net income	**$ 52.2**	$ 16.3	$ (0.2)
Net Income – Forest Products	**$ 170.0**	$ 29.2	$ (16.8)
Marathon Realty Company Limited			
Revenues	**$ 364.7**	$ 332.9	$ 279.6
Expenses including income taxes			
Operating expenses and cost of sales	**176.4**	170.6	134.1
Depreciation and amortization	**27.7**	22.4	18.6
Interest	**107.5**	91.0	79.9
Income taxes	**18.9**	19.3	18.3
	330.5	303.3	250.9
	34.2	29.6	28.7
Minority interest	**0.8**	0.7	8.6
Net income	**$ 33.4**	$ 28.9	$ 20.1
Canadian Pacific Hotels Corporation			
Revenues	**$ 295.6**	$ 311.3	$ 293.3
Expenses including income taxes			
Operating expenses and cost of goods sold	**178.2**	192.2	185.1
Selling, general and administrative	**78.3**	71.5	59.2
Depreciation and amortization	**11.2**	12.5	12.3
Interest	**0.8**	6.2	5.9
Income taxes	**12.3**	14.6	13.1
	280.8	297.0	275.6
Net income	**$ 14.8**	$ 14.3	$ 17.7
Net Income – Real Estate and Hotels	**$ 48.2**	$ 43.2	$ 37.8

1. Net Income (cont'd)	1987	1986	1985
		(in millions)	
The Algoma Steel Corporation, Limited			
Revenues	$ 1,240.9	$ 1,093.6	$ 1,178.4
Expenses including income taxes			
Cost of goods sold	1,046.7	1,022.7	1,045.4
Selling, general and administrative	24.9	25.8	27.7
Depreciation, depletion and amortization	60.5	66.4	67.5
Interest	51.3	52.6	54.5
Income taxes	16.6	(15.3)	(17.1)
	1,200.0	1,152.2	1,178.0
	40.9	(58.6)	0.4
Minority interest	26.2	(13.1)	8.0
Net income	$ 14.7	$ (45.5)	$ (7.6)
AMCA International Limited			
Revenues	$ 1,486.9	$ 2,421.8	$ 2,146.9
Expenses including income taxes			
Cost of goods sold	1,197.9	2,128.1	1,675.7
Selling, general and administrative	203.2	190.9	339.1
Depreciation, depletion and amortization	34.9	39.8	52.2
Interest	51.1	56.2	65.6
Income taxes	3.6	38.5	(6.5)
	1,490.7	2,453.5	2,126.1
	(3.8)	(31.7)	20.8
Minority interest	3.2	(11.7)	14.6
Net income	$ (7.0)	$ (20.0)	$ 6.2
Syracuse China Corporation			
Revenues	$ 57.6	$ 61.9	$ 63.6
Expenses including income taxes			
Cost of goods sold	32.1	33.5	35.1
Selling, general and administrative	11.5	11.1	13.2
Depreciation and amortization	2.8	2.6	2.5
Interest	0.2	0.5	0.7
Income taxes	5.0	6.9	5.9
	51.6	54.6	57.4
	6.0	7.3	6.2
Minority interest	—	—	1.8
Net income	$ 6.0	$ 7.3	$ 4.4
CP Telecommunications			
Revenues	$ 158.3	$ 171.9	$ 174.6
Expenses including income taxes			
Maintenance and other operating	89.9	92.0	93.6
Selling, general and administrative	42.0	30.4	31.2
Depreciation and amortization	23.2	25.9	24.4
Interest	5.3	5.2	5.6
Income taxes	(1.0)	10.3	10.8
	159.4	163.8	165.6
Net income	$ (1.1)	$ 8.1	$ 9.0

1. Net Income (cont'd)	**1987**	1986	1985
		(in millions)	
Other			
Revenues	**$ 262.5**	$ 240.7	$ 250.3
Expenses including income taxes			
Cost of goods sold	**54.5**	30.3	26.5
Selling, general and administrative	**79.0**	70.9	80.3
Depreciation and amortization	**8.2**	7.1	28.5
Interest	**116.9**	155.1	162.2
Income taxes	**(14.0)**	(23.4)	(30.5)
	244.6	240.0	267.0
	17.9	0.7	(16.7)
Minority interest	**—**	—	5.0
Net income	**$ 17.9**	$ 0.7	$ (21.7)
Net Income – Manufacturing and Other	**$ 30.5**	$ (49.4)	$ (9.7)
Discontinued Businesses			
Maple Leaf Mills Limited	**$ 8.2**	$ 16.2	$ 7.1
Canadian Pacific Air Lines, Limited	**(7.5)**	(4.2)	(26.6)
Cominco Ltd.	**—**	(33.4)	(49.3)
Other	**—**	—	(0.1)
Net Income – Discontinued Businesses	**$ 0.7**	$ (21.4)	$ (68.9)
Summary			
Total revenues	**$ 12,208.6**	$ 15,113.8	$ 15,128.0
Total expenses including income taxes			
Expenses, excluding the undernoted items	**9,621.9**	12,984.0	12,750.6
Depreciation, depletion and amortization	**752.5**	967.0	978.2
Interest (Note 6)	**514.6**	737.4	736.9
Income taxes	**578.9**	308.4	328.9
	11,467.9	14,996.8	14,794.6
	740.7	117.0	333.4
Minority interest	**104.0**	(33.1)	80.7
Net income before extraordinary items	**636.7**	150.1	252.7
Extraordinary items (Note 3)	**189.6**	(230.4)	—
Net Income	**$ 826.3**	$ (80.3)	$ 252.7

2. Change in Accounting Policies

Pensions

Effective January 1, 1987, the Corporation and its subsidiaries adopted on a prospective basis the recommendations of the Canadian Institute of Chartered Accountants (CICA) on accounting for pension costs and obligations. The change in accounting did not have any significant impact on consolidated net income for the year (see also Note 19).

Oil and Gas Properties

During 1986 PanCanadian adopted on a retroactive basis the rules contained in a guideline issued by the CICA for applying the full cost method of accounting in the oil and gas industry. The primary effect of the change in accounting was an unusual charge in 1986 of $82.5 million representing CP Limited's share of a $94.8 million ceiling test write-down on PanCanadian's non-Canadian operations occasioned by the significant decline in world oil prices.

3. Extraordinary Items

Extraordinary items consist of the following:

	(in millions)			
	Proceeds	Gain before Income Taxes	Income Taxes	Gain/(Loss) after Income Taxes
Sale of Canadian Pacific Air Lines, Limited in January	$ 300.0	$ 227.7	$ 55.2	$ 172.5
Sale of office building by a wholly-owned subsidiary in March	52.5	27.1	6.3	20.8
Sale of Maple Leaf Mills Limited in August	359.5	199.9	39.1	160.8
				354.1
AMCA International Limited				
Permanent impairment in the value of Machine Tool assets				(199.1)
Reduction in carrying value of businesses to be disposed				(46.4)
				(245.5)
Minority interest				121.3
				(124.2)
Provision for loss on the planned disposition of German hotel properties leased by Canadian Pacific Hotels Corporation, net of income taxes of $4.2 million				(40.3)
				$ 189.6

The 1986 extraordinary net charge of $230.4 million resulted from the write-down in the value of certain assets in the amount of $362.5 million, offset by a gain of $102.6 million from the sale of the Corporation's investment in Cominco Ltd. and a gain of $29.5 million from the sale of CP Hotels' flight kitchens.

4. Merger with Canadian Pacific Enterprises Limited

Effective December 6, 1985 the Corporation and its principal subsidiary, Canadian Pacific Enterprises Limited (Enterprises) were merged. Under the merger, in which Enterprises became a wholly-owned subsidiary of the Corporation, the holders of Common Shares of Enterprises were issued 1.675 Ordinary Shares of the Corporation for each Common Share of Enterprises. This resulted in the issue in 1985 of 78,942,444 Ordinary Shares of the Corporation with a value of $1,401.2 million. A further 2,630 Ordinary Shares with a value of $46,000 were issued to dissenting shareholders of Enterprises during 1986 (see Note 15).

Prior to the merger the Corporation owned approximately 70% of the Common Shares of Enterprises and through Enterprises shared in the earnings of PanCanadian Petroleum Limited, Fording Coal Limited, CIP Inc., Great Lakes Forest Products Limited, Marathon Realty Company Limited, The Algoma Steel Corporation, Limited, AMCA International Limited, Syracuse China Corporation and other Enterprises' subsidiaries.

The merger was accounted for as a purchase, and the Corporation's consolidated net income includes its additional interest in the results of Enterprises' subsidiaries from the date of the merger. The excess of the acquisition cost over the book value of the Enterprises' shares acquired (approximately $401 million) has been allocated to oil and gas and real estate assets and is being amortized to income on the same basis as the related assets are being depreciated and depleted.

5. Changes in Non-Cash Working Capital Balances Relating to Operations

	1987	1986	1985
		(in millions)	
Decrease (increase) in current assets			
Accounts receivable	$ **144.7**	$ 470.0	$ (347.7)
Inventories	**77.9**	779.1	(58.8)
Other current assets	**268.1**	(409.8)	(42.2)
Increase (decrease) in current liabilities			
Accounts payable and accrued liabilities	**103.9**	(723.3)	457.2
Income and other taxes payable	**177.3**	(17.0)	—
Decrease in non-cash working capital balances during year	**771.9**	99.0	8.5
Increase in non-cash working capital balances not relating to operations	**(428.2)**	(196.0)	(91.7)
Decrease (increase) in non-cash working capital balances relating to operations	$ **343.7**	$ (97.0)	$ (83.2)

6. Interest Expense

	1987	1986	1985
		(in millions)	
Long term debt and debenture stock	$ **494.0**	$ 697.4	$ 678.8
Short term debt	**46.4**	94.5	102.1
	540.4	791.9	780.9
Less: Interest capitalized on funds borrowed to finance capital projects	**25.8**	54.5	44.0
	$ **514.6**	$ 737.4	$ 736.9

7. Income Taxes

	1987	1986	1985
		(in millions)	
Canadian			
Current – Before extraordinary items	**$ 330.1**	$ 173.6	$ 280.9
– Extraordinary items	**58.2**	—	—
	388.3	173.6	280.9
Deferred – Before extraordinary items	**241.9**	144.8	60.7
– Extraordinary items	**36.1**	(28.5)	—
	278.0	116.3	60.7
	$ 666.3	$ 289.9	$ 341.6
Foreign			
Current – Before extraordinary items	**$ 23.3**	$ 19.9	$ 28.3
– Extraordinary items	**6.3**	—	—
	29.6	19.9	28.3
Deferred – Before extraordinary items	**(16.4)**	(29.9)	(41.0)
– Extraordinary items	**(4.2)**	—	—
	(20.6)	(29.9)	(41.0)
	$ 9.0	$ (10.0)	$ (12.7)
Total			
Current – Before extraordinary items	**$ 353.4**	$ 193.5	$ 309.2
– Extraordinary items	**64.5**	—	—
	417.9	193.5	309.2
Deferred – Before extraordinary items	**225.5**	114.9	19.7
– Extraordinary items	**31.9**	(28.5)	—
	257.4	86.4	19.7
	$ 675.3	$ 279.9	$ 328.9
The deferred income tax provision arose as follows:			
Capital cost allowances	**$ 260.7**	$ 121.0	$ (12.1)
Exploration and development allowances	**18.2**	10.1	34.6
Losses tax affected	**(52.5)**	(75.8)	(7.8)
Other	**31.0**	31.1	5.0
	$ 257.4	$ 86.4	$ 19.7
Income tax at the statutory tax rate may be reconciled to the effective tax as follows:			
Income tax at the statutory rate	**$ 746.7**	$ 27.3	$ 390.0
Depletion and resource allowances	**(66.3)**	(47.7)	(98.9)
Foreign tax differentials	**(26.2)**	(20.5)	(8.5)
Reduction of tax benefits previously recorded	**—**	29.9	16.3
Royalties and mineral reserve tax	**18.7**	17.5	37.8
Manufacturing and processing credits	**(27.9)**	(5.9)	(1.1)
Loss carry forwards recognized	**(19.6)**	—	—
Operating losses not tax affected	**13.5**	116.7	—
Extraordinary losses not tax affected	**115.7**	200.8	—
Capital gains rate differential	**(127.4)**	(52.2)	—
Other	**48.1**	14.0	(6.7)
Income taxes as charged to income	**$ 675.3**	$ 279.9	$ 328.9

8. Inventories

	1987	1986
	(in millions)	
Rail materials and supplies	**$ 222.5**	$ 258.6
Raw materials	**394.2**	407.9
Work in progress	**157.6**	128.3
Finished goods	**231.0**	280.1
Stores and materials	**185.6**	193.9
	$ 1,190.9	$ 1,268.8

9. Investments

	1987	1986
	(in millions)	
Accounted for on the equity basis:		
AMCA International Finance Corporation	**$ 26.1**	$ 27.5
AMCA International Finance Limited	**19.0**	13.0
Tilden Iron Ore Partnership	**140.0**	50.6
Other	**50.9**	81.2
Accounted for on the cost basis:		
Cominco Ltd. – preferred shares	**75.0**	75.0
The Toronto Terminals Railway Company	**10.7**	10.7
Portfolio investments (approximate market value 1987 – $11.8 million; 1986 – $12.3 million)	**10.1**	12.3
Other	**86.6**	76.3
	$ 418.4	$ 346.6

10. Properties and Accumulated Depreciation, Depletion and Amortization

	1987			1986
	(in millions)			
	Cost	Accumulated Depreciation, Depletion and Amortization	Net	Net
Transportation				
CP Rail	$ 5,542.5	$ 1,921.9	**$ 3,620.6**	$ 3,453.0
Soo Line Corporation	1,233.6	327.0	**906.6**	1,171.0
CP Ships	751.8	557.8	**194.0**	247.7
CP Trucks	239.9	102.8	**137.1**	142.3
	7,767.8	2,909.5	**4,858.3**	5,014.0
Energy				
PanCanadian Petroleum Limited	3,528.2	1,342.4	**2,185.8**	2,143.1
Fording Coal Limited	423.7	174.1	**249.6**	249.7
	3,951.9	1,516.5	**2,435.4**	2,392.8
Forest Products				
CIP Inc.	1,778.1	554.4	**1,223.7**	1,215.4
Great Lakes Forest Products Limited	1,075.2	468.7	**606.5**	599.4
	2,853.3	1,023.1	**1,830.2**	1,814.8
Real Estate and Hotels				
Marathon Realty Company Limited	2,207.6	133.5	**2,074.1**	1,789.1
Canadian Pacific Hotels Corporation	383.8	101.1	**282.7**	202.7
	2,591.4	234.6	**2,356.8**	1,991.8
Manufacturing and Other				
The Algoma Steel Corporation, Limited	1,789.8	886.6	**903.2**	920.4
AMCA International Limited	343.8	195.6	**148.2**	245.4
Syracuse China Corporation	39.1	19.0	**20.1**	20.0
CP Telecommunications	387.4	196.8	**190.6**	180.6
Other	142.8	47.4	**95.4**	82.8
	2,702.9	1,345.4	**1,357.5**	1,449.2
Discontinued Businesses	—	—	**—**	150.7
	$ 19,867.3	$ 7,029.1	**$ 12,838.2**	$ 12,813.3

11. Long Term Debt

		1987		1986
		(in millions)		
Canadian Pacific Limited				
8½% – 14⅝% Collateral Trust Bonds due 1989-1995	$	**207.2**	$	289.4
8½% – 14⅜% Equipment Trust Certificates due 1988-1993		**196.8**		219.8
7.5% – 12.5% Debentures due 1990-1999		**607.9**		540.5
Bank loan		**—**		18.7
Obligations under capital leases due 1988-1997		**18.7**		9.1
Soo Line Corporation				
7⅛% – 13⅝% Equipment Trust Certificates due 1988-1996		**56.6**		71.7
10¾% – 12.95% Notes due 1991-2005		**238.4**		243.9
Bank loans and sundry borrowings due 1988-1997		**54.9**		205.7
Obligations under capital leases due 1988-1999		**52.6**		68.5
Centennial Shipping Limited				
Bank loans and sundry borrowings due 1988-1990		**10.6**		41.0
Obligations under capital leases due 1988-1991		**14.2**		23.0
Canadian Pacific (Bermuda) Limited				
Obligation under capital lease due 1988-1991		**5.8**		7.5
Canadian Pacific Express & Transport Ltd.				
Notes due 1988-1989		**39.5**		36.6
Sundry – due 1988-1989		**0.2**		0.3
PanCanadian Petroleum Limited				
8⅛% – 12½% Debentures due 1988-1993		**86.1**		87.5
Fording Coal Limited				
Notes due 1988-1990		**47.0**		47.5
CIP Inc.				
Bank loans due 1988-1996		**31.8**		196.6
Notes due 1988-1990		**137.1**		137.1
Sundry – due 1988-1997		**246.9**		269.4
Great Lakes Forest Products Limited				
8% – 11¼% Sinking Fund Bonds due 1988-1995		**29.1**		30.9
Bank loans due 1988-1992		**98.8**		148.7
Sundry – due 1988-1989		**0.4**		3.3
Marathon Realty Company Limited				
9% – 14.75% Sinking Fund Bonds due 1988-2007		**372.4**		304.7
Mortgages due 1988-2018		**491.2**		451.6
Bank loans due 1988-1994		**357.6**		272.8
Sundry – due 1988-1994		**158.6**		161.2
Canadian Pacific Hotels Corporation				
8⅝% – 11⅜% First Mortgage Sinking Fund Bonds		**—**		36.6
Bank loans and sundry borrowings due 1988		**17.9**		22.6
The Algoma Steel Corporation, Limited				
8¾% – 17⅜% Sinking Fund Debentures due 1988-1997		**262.0**		293.7
Floating Rate Income Debentures due 1994-1999		**112.0**		115.2
Floating Rate Debenture due 1995		**169.4**		53.8
9.65% Note due 1988-2000		**33.8**		38.7

11. Long Term Debt (cont'd)

		1987		1986
		(in millions)		
AMCA International Limited				
7⅜% – 12¼% Debentures due 1988-1999	$	**327.5**	$	329.0
Bank loans due 1988		**63.7**		179.0
Notes due 1988-1991		**14.2**		85.5
Canadian Pacific Securities Limited				
8¼% – 9½% Debentures due 1990-1993		**48.6**		51.3
11⅞% – 16¼% Guaranteed Notes due 1988-1990		**372.0**		436.4
Other companies		**31.8**		36.8
Discontinued Businesses		**—**		69.9
Inter-company eliminations		**(543.5)**		(520.8)
		4,469.8		5,114.7
Less: Long term debt maturing within one year		**614.6**		613.7
	$	**3,855.2**	$	4,501.0

Collateral Trust Bonds of CP Limited are secured by a pledge of Perpetual 4% Consolidated Debenture Stock aggregating in the principal amount of $548.7 million at December 31, 1987 (1986 – $728 million).

At December 31, 1987 foreign currency long term debt, denominated principally in United States dollars, amounted to $2,941 million (1986 – $3,216.9 million).

Of the aggregate bank loans of $680.8 million included above, approximately $585.5 million bear interest at rates which fluctuate with bank prime or money market rates.

Annual maturities and sinking fund requirements for each of the five years following 1987 are: 1988 – $614.6 million; 1989 – $299.5 million; 1990 – $552.1 million; 1991 – $406.2 million; 1992 – $560.2 million.

12. Perpetual 4% Consolidated Debenture Stock

	1987								1986	
	(in millions)									
Currency of Issue		Sterling		United States Dollar		Canadian Dollar		Total		Total
Issued	£	46.8	$	353.8	$	173.3	$	**746.4**	$	912.6
Less: Pledged as collateral		—		288.8		173.3		**548.7**		728.0
	£	46.8	$	65.0	$	—	$	**197.7**	$	184.6

13. Deferred Income Credits

Deferred Income Credits include approximately $188 million (1986 – $164.5 million) from the Federal Government primarily for the rehabilitation of certain western branch lines, approximately $49.1 million (1986 – $48.3 million) from other bodies, mainly for relocation of railway lines, and approximately $73.3 million (1986 – $61.3 million) in investment tax credits. These amounts are being amortized to income on the same basis as the related fixed assets are being depreciated.

Deferred Income Credits also include approximately $61 million (1986 – $72 million) covering payments received by PanCanadian Petroleum Limited for natural gas to be delivered at future dates. These payments are taken into income when the natural gas is delivered.

14. Minority Shareholders' Interest in Subsidiary Companies

	1987	1986
	(in millions)	
Soo Line Corporation	**$ 144.1**	$ 160.7
Centennial Shipping Limited	**10.9**	8.6
PanCanadian Petroleum Limited	**175.9**	162.2
CIP Inc.	**48.4**	40.9
Great Lakes Forest Products Limited	**187.5**	156.5
Marathon Realty Company Limited	**2.2**	2.3
The Algoma Steel Corporation, Limited		
8% Tax deferred preference shares, series A	**37.6**	40.4
Floating rate preference shares	**—**	80.0
$2.00 Cumulative redeemable convertible class B preference shares	**95.0**	95.0
Common share equity	**196.1**	183.6
AMCA International Limited		
8.84% Cumulative redeemable retractable preferred shares	**58.2**	60.9
9.5% Cumulative redeemable convertible preferred shares	**100.0**	100.0
9.25% Cumulative redeemable retractable preferred shares	**54.0**	58.4
Common share equity	**26.4**	174.5
Steep Rock Resources Inc.	**2.7**	2.8
Discontinued Businesses	**—**	17.9
	$ 1,139.0	$ 1,344.7

15. Shareholders' Equity

Preferred Shares: As at December 31, 1987 the Corporation was authorized to issue 20,381,788 Cumulative Redeemable Shares without nominal or par value.

No shares of this class have been outstanding since March 1985 when the balance then outstanding (1,077,122 shares) was redeemed for $10.8 million.

Preference Shares: 4% Non-Cumulative
Authorized: an amount not exceeding one-half the aggregate amount of Ordinary Shares outstanding.

	December 31		
	1987	1986	1985
		(in millions)	
Issued:			
2,561,769 Sterling Preference Shares	**$ 4.2**	$ 4.2	$ 4.2
10,713,816 Canadian Dollar Preference Shares	**10.7**	10.7	10.7
	$ 14.9	$ 14.9	$ 14.9

Ordinary Shares: As at December 31, 1987 the Corporation was authorized to issue an unlimited number of shares without nominal or par value.

During 1987, 3,246,277 Ordinary Shares (1986 – 1,836,548; 1985 – 3,776,649) were issued for cash under the Corporation's dividend reinvestment and share purchase plan.

As is described more fully in Note 4, the Corporation also issued 2,630 Ordinary Shares in 1986 and 78,942,444 Ordinary Shares in 1985 as a result of the merger with Canadian Pacific Enterprises Limited. The value assigned to these shares was allocated in part to the Corporation's Ordinary Share capital account and in part to Premium on Securities. The amount allocated to the Corporation's Ordinary Share capital account was $11,000 in 1986 and $334 million in 1985, while the amount allocated to Premium on Securities was $35,000 in 1986 and $1,067.3 million in 1985.

15. Shareholders' Equity (cont'd)

An analysis of Ordinary Share balances is as follows:

	1987		1986		1985	
	Number	Amount	Number	Amount	Number	Amount
	(in millions)					
Balance, January 1	**299.5**	**$ 790.0**	297.7	$ 760.5	215.0	$ 358.3
Issued during year	**3.3**	**68.7**	1.8	29.5	82.7	402.2
Balance, December 31	**302.8**	**$ 858.7**	299.5	$ 790.0	297.7	$ 760.5

At December 31, 1987, Chemainus Towing Co. Ltd. (a wholly-owned indirect subsidiary of the Corporation) held 33,000 Sterling and 825,375 Canadian Dollar Preference Shares in the Corporation at a total cost of $452,000.

An analysis of the Foreign Currency Translation Adjustments balance is as follows:

	1987	1986	1985
	(in millions)		
Balance, January 1	**$ 228.3**	$ 302.7	$ 259.3
Effect of exchange rate changes	**(39.3)**	(3.9)	43.6
Change in investment in subsidiaries	**(3.3)**	8.4	(0.2)
Other (see Note)	**(8.8)**	(78.9)	—
Balance, December 31	**$ 176.9**	$ 228.3	$ 302.7

Note: The $78.9 million in 1986 represents the amount by which the foreign currency translation adjustment arising from the Corporation's investment in CP Ships decreased as a result of the decision to make a provision for permanent impairment in the value of CP Ships' assets.

16. Stock Options

Under a stock option plan introduced during 1986, options may be granted to certain key employees to purchase Ordinary Shares of the Corporation at a price not less than 90% of the market value of the share at the grant date. Each option may be exercised after two years in respect of one-half of the number of shares to which it relates and after three years in respect of the balance. Options expire ten years after the grant date.

Simultaneously with the grant of an option, employees are also granted Stock Appreciation Rights (SARs) equivalent to one-half the number of shares to which each option relates. An SAR entitles the holder to receive payment, either in cash or Ordinary Shares, of an amount equal to the excess of the market value of an Ordinary Share at the time of exercise of the SAR over the related option price. SARs may be exercised no earlier than three years and no later than ten years after the grant date.

Where an option has been exercised as to one-half the number of shares to which it relates, any further exercise reduces the number of SARs granted on a one-for-one basis. At all times the exercise of an SAR reduces the number of shares covered by an option on a one-for-one basis.

At December 31, 1987, 5,000,000 Ordinary Shares were authorized for issuance under the plan.

At December 31, 1987, options covering 580,880 shares were outstanding: 271,682 granted during 1986 at an exercise price of $16.813 per share; 309,198 granted during 1987 at an exercise price of $19.875 per share for 277,926 shares and $27.25 per share for 31,272 shares.

17. Business Segments

	Revenues			Income		
	1987	1986	1985	**1987**	1986	1985
		(in millions)			(in millions)	
Transportation	**$ 4,425.9**	$ 4,200.0	$ 4,046.5	**$ 666.7**	$ 494.4	$ 422.1
Energy	**988.7**	1,043.6	1,407.3	**325.4**	332.9	726.2
Forest Products	**2,784.2**	2,333.4	2,248.7	**486.0**	223.4	112.9
Real Estate and Hotels	**660.3**	644.2	572.9	**188.5**	175.0	156.1
Manufacturing and Other	**3,182.4**	3,961.5	3,777.2	**391.6**	287.5	323.0
Inter-segment revenues	**(367.9)**	(442.4)	(443.3)	**—**	—	—
Inter-segment interest income	**—**	—	—	**(90.4)**	(116.9)	(108.8)
Revenues and income from operations	**11,673.6**	11,740.3	11,609.3	**1,967.8**	1,396.3	1,631.5
Discontinued Businesses	**535.0**	3,373.5	3,518.7	**14.4**	90.3	(61.2)
	$ 12,208.6	$ 15,113.8	$ 15,128.0	**1,982.2**	1,486.6	1,570.3
Other expenses				**148.0**	323.8	171.1
Interest – gross				**605.0**	854.3	845.7
Inter-segment interest expense				**(90.4)**	(116.9)	(108.8)
Interest – net				**514.6**	737.4	736.9
Income taxes				**578.9**	308.4	328.9
				740.7	117.0	333.4
Minority interest				**104.0**	(33.1)	80.7
Net income before extraordinary items				**$ 636.7**	$ 150.1	$ 252.7

In arriving at consolidated revenues from operations, charges between entities engaged in different business segments of $367.9 million in 1987 (1986 – $442.4 million; 1985 – $443.3 million) have been eliminated. The amounts eliminated represent revenues earned by the Transportation segment from other business segments of $200.7 million in 1987 (1986 – $258.8 million; 1985 – $255.5 million), interest earned by the Manufacturing and Other segment from other business segments of $71.9 million in 1987 (1986 – $93 million; 1985 – $95 million) and other inter-segment revenues of $95.3 million in 1987 (1986 – $90.6 million; 1985 – $92.8 million).

17. Business Segments (cont'd)

	1987	1986	1985
		(in millions)	
Depreciation, depletion and amortization			
Transportation			
CP Rail	**$ 136.8**	$ 137.7	$ 126.6
Soo Line Corporation	**53.7**	57.5	55.9
CP Ships	**23.4**	33.3	47.1
CP Trucks	**18.2**	16.6	15.3
	232.1	245.1	244.9
Energy			
PanCanadian Petroleum Limited	**171.6**	157.1	139.3
Fording Coal Limited	**14.9**	16.6	15.4
	186.5	173.7	154.7
Forest Products			
CIP Inc.	**100.3**	93.6	95.5
Great Lakes Forest Products Limited	**46.3**	46.1	49.4
	146.6	139.7	144.9
Real Estate and Hotels			
Marathon Realty Company Limited	**27.7**	22.4	18.6
Canadian Pacific Hotels Corporation	**11.2**	12.5	12.3
	38.9	34.9	30.9
Manufacturing and Other			
The Algoma Steel Corporation, Limited	**60.5**	66.4	67.5
AMCA International Limited	**34.9**	39.8	52.2
Syracuse China Corporation	**2.8**	2.6	2.5
CP Telecommunications	**23.2**	25.9	24.4
Other	**8.2**	7.1	28.5
	129.6	141.8	175.1
Discontinued Businesses	**18.8**	231.8	227.7
	$ 752.5	$ 967.0	$ 978.2

17. Business Segments (cont'd)

	1987	1986	1985
		(in millions)	
Identifiable assets			
Transportation			
CP Rail	**$ 4,249.2**	$ 4,138.6	$ 3,787.2
Soo Line Corporation	**1,166.0**	1,479.0	1,555.2
CP Ships	**319.1**	353.1	718.2
CP Trucks	**226.0**	223.1	203.7
	5,960.3	6,193.8	6,264.3
Energy			
PanCanadian Petroleum Limited	**2,574.5**	2,375.1	2,565.9
Fording Coal Limited	**321.0**	318.0	309.1
	2,895.5	2,693.1	2,875.0
Forest Products			
CIP Inc.	**1,865.6**	1,774.4	1,732.6
Great Lakes Forest Products Limited	**864.1**	800.8	798.3
	2,729.7	2,575.2	2,530.9
Real Estate and Hotels			
Marathon Realty Company Limited	**2,155.6**	1,857.4	1,673.4
Canadian Pacific Hotels Corporation	**312.0**	323.4	248.2
	2,467.6	2,180.8	1,921.6
Manufacturing and Other			
The Algoma Steel Corporation, Limited	**1,615.8**	1,528.0	1,675.3
AMCA International Limited	**1,029.0**	1,490.2	1,837.6
Syracuse China Corporation	**43.0**	49.6	46.4
CP Telecommunications	**212.3**	204.2	198.6
Other	**2,035.8**	1,150.2	1,226.3
	4,935.9	4,422.2	4,984.2
Discontinued Businesses	**—**	486.0	3,646.6
Eliminations	**(988.3)**	(852.4)	(891.1)
	$ 18,000.7	$ 17,698.7	$ 21,331.5
Capital expenditures			
Transportation			
CP Rail	**$ 316.5**	$ 475.5	$ 578.6
Soo Line Corporation	**34.5**	33.0	30.7
CP Ships	**9.4**	21.5	20.7
CP Trucks	**28.7**	23.5	27.0
	389.1	553.5	657.0
Energy			
PanCanadian Petroleum Limited	**214.3**	172.5	423.1
Fording Coal Limited	**22.5**	22.5	36.9
	236.8	195.0	460.0
Forest Products			
CIP Inc.	**119.7**	131.5	75.6
Great Lakes Forest Products Limited	**52.4**	30.7	45.1
	172.1	162.2	120.7
Real Estate and Hotels			
Marathon Realty Company Limited	**194.3**	317.1	76.7
Canadian Pacific Hotels Corporation	**100.1**	46.0	20.5
	294.4	363.1	97.2
Manufacturing and Other			
The Algoma Steel Corporation, Limited	**45.4**	130.6	143.2
AMCA International Limited	**32.3**	31.2	59.1
Syracuse China Corporation	**2.4**	2.2	2.4
CP Telecommunications	**39.7**	31.2	35.4
Other	**27.8**	13.1	6.5
	147.6	208.3	246.6
Discontinued Businesses	**14.7**	305.7	307.0
	$ 1,254.7	$ 1,787.8	$ 1,888.5

18. Geographic Segments

	1987	1986	1985
		(in millions)	
Canada			
Revenues			
Domestic	**$ 6,695.8**	$ 7,492.1	$ 7,957.0
Export	**2,886.5**	3,902.9	3,813.0
Inter-company revenues	**(446.7)**	(527.8)	(539.2)
Total revenues	**$ 9,135.6**	$ 10,867.2	$ 11,230.8
Net income before extraordinary items	**$ 597.0**	$ 292.0	$ 258.2
Identifiable assets	**$ 15,265.4**	$ 14,384.1	$ 16,780.1
United States			
Total revenues	**$ 2,356.8**	$ 3,631.2	$ 3,146.4
Net income before extraordinary items	**$ (9.8)**	$ (166.8)	$ (2.1)
Identifiable assets	**$ 3,238.5**	$ 3,543.2	$ 4,268.3
Other Countries			
Total revenues	**$ 716.2**	$ 615.4	$ 750.8
Net income before extraordinary items	**$ 49.5**	$ 24.9	$ (3.4)
Identifiable assets	**$ 485.1**	$ 623.8	$ 1,174.2
Summary			
Total revenues	**$ 12,208.6**	$ 15,113.8	$ 15,128.0
Net income before extraordinary items	**$ 636.7**	$ 150.1	$ 252.7
Identifiable assets	**$ 18,989.0**	$ 18,551.1	$ 22,222.6
Eliminations	**(988.3)**	(852.4)	(891.1)
	$ 18,000.7	$ 17,698.7	$ 21,331.5

19. Pensions

The Corporation and the majority of its subsidiaries have defined benefit plans which provide for pensions based principally on years of service and compensation rates near retirement. Annual contributions to these plans, which are based on various actuarial cost methods, are made on the basis of not less than the minimum amounts required by Federal or Provincial pension supervisory authorities.

Net pension expense for 1987 for such defined benefit plans includes the following components:

	(in millions)
Service cost-benefits earned during the year	$ 53.7
Interest cost on projected benefit obligation	372.6
Actual return on pension fund assets	(466.8)
Net amortization and deferrals	149.5
Net pension expense	$ 109.0

The pension expense for 1987 is based on the new Canadian standard covering accounting for pension costs and obligations. Since the standard does not provide for retroactive application of its recommendations, pension expense for defined benefit plans in 1986 and 1985 has not been restated. The practice in previous years, which was generally to expense contributions made in the year based on actuarial valuations prepared for funding purposes, resulted in a pension expense of $157.6 million in 1986 and $188.9 million in 1985.

The following table sets forth the plans' funded status and the amounts recognized in the Corporation's consolidated balance sheet as at December 31, 1987.

	Plans having assets in excess of accumulated benefits (in millions)	Plans having accumulated benefits in excess of assets
Actuarial present value of benefit obligation:		
Vested	$ 3,813.9	$ 401.3
Non-vested	28.2	5.1
Accumulated benefit obligation	3,842.1	406.4
Effect of projected future salary increases	610.6	6.3
Projected benefit obligation (based on a weighted average discount rate of approximately 8% and salary increases ranging from 4.5% to 6%)	4,452.7	412.7
Pension fund assets at market-related values	4,334.9	249.3
Projected benefit obligation in excess of pension fund assets	(117.8)	(163.4)
Unamortized portion of net obligation at January 1, 1987*	209.4	70.9
Unamortized prior service cost*	57.3	61.1
Unamortized net gain*	(152.5)	(13.1)
Accrued pension cost in Consolidated Balance Sheet	$ (3.6)	$ (44.5)

*Being amortized over expected average remaining service life of employees, generally 15 years.

Pension fund assets consist primarily of listed stocks and bonds. The assumed weighted average long term rate of return on pension fund assets is approximately 8%.

The Corporation also has subsidiary-sponsored defined contribution plans. Pension expense for such plans, which generally equals the employer's required contribution, was $13.8 million, $12.4 million and $11.1 million in 1987, 1986 and 1985, respectively.

In addition to pension benefits, the Corporation and several of its subsidiaries provide health care and life insurance benefits for certain retired employees. The cost of providing these benefits is recognized by expensing the annual insurance premiums which were approximately $11 million, $10 million and $12 million in 1987, 1986 and 1985, respectively.

20. Commitments

At December 31, 1987, commitments for capital expenditures amounted to $396 million and minimum payments under operating leases were estimated at $805 million in the aggregate, with annual payments (in millions) in each of the five years following 1987 of:

1988 – $114; 1989 – $91; 1990 – $71; 1991 – $60; 1992 – $51.

At December 31, 1987, unused commitments for long term financing amounted to $1,533 million at interest rates varying with bank prime or money market rates, with commitment fees on $1,069 million ranging from 1/8% to 3/8%.

Unused lines of credit for short term financing, subject to periodic review, repayable on demand and at various maturities up to 365 days, amounted to $931 million on which interest rates vary with bank prime or money market rates.

21. Subsequent Event

In January, 1988, Canadian Pacific Hotels reached an agreement with Canadian National Railway Company to acquire the CN Hotels chain consisting of nine owned or managed hotels for $260 million cash plus working capital. The transaction, which is expected to be completed within the next few months, will be financed partly by funds from the Corporation and partly by the issue of long term debt.

22. Reclassification

Certain prior years' figures have been reclassified to conform with the presentation adopted for 1987.

23. Supplementary Data

The discussion of Canadian and United States Accounting Principles included in Supplementary Data is an integral part of these financial statements.

The following data are provided to comply with certain disclosure requirements of the Securities and Exchange Commission (SEC) of the United States.

Canadian and United States Accounting Principles

The consolidated financial statements of CP Limited have been prepared in accordance with generally accepted accounting principles (GAAP) in Canada, as promulgated by the Canadian Institute of Chartered Accountants. Over the years, a number of differences have developed between the accounting principles generally accepted in Canada and in the United States. For the information of the Corporation's United States shareholders, the major differences are described below and their effect on the Corporation's net income is summarized, their effect on the balance sheet not being significant.

The full cost methods of accounting for conventional oil and gas operations promulgated under Canadian and United States GAAP differ in the following respect. Ceiling test calculations are performed by comparing the net book value of conventional petroleum and natural gas properties with the future net revenues expected to be generated from proven developed reserves, discounted at ten percent for United States reporting purposes, and undiscounted for Canadian reporting. Any excess of net book value over future net revenues is recognized as additional depletion expense in both reporting jurisdictions.

The method of recording income from land sales and gains on sale of income properties in proportion to proceeds realized and the sinking fund method of providing depreciation followed by the Real Estate and Hotels business segment in accordance with Canadian GAAP are not acceptable methods under United States GAAP. If United States accounting principles had been followed, income from land sales and gains on sale of income properties would have been recorded in total in the years that the transactions occurred and the straight-line method of depreciation would have been used.

Canadian GAAP permits deferred income tax balances to be carried forward on the balance sheet of an acquired company after a change in control, while United States GAAP requires such balances to be eliminated. Accordingly, when CIP was acquired, its deferred income tax balances were carried forward and since CIP recorded a loss in 1983 and 1982, the tax benefit of the loss carry forward has been recognized to the extent permissible under Canadian GAAP, by reducing deferred income taxes.

CP Limited follows the Canadian practice of deferring and amortizing unrealized exchange gains and losses related to long term foreign currency assets and liabilities, whereas under United States GAAP such gains and losses are included in income immediately.

The principal difference between Canadian and U.S. GAAP in accounting for pension costs is in the choice of discount rate used for computing the benefit obligation and the service and interest cost component of net periodic pension expense. Under Canadian GAAP, the discount rate used represents management's best estimate of the long term rate of return on pension fund assets, whereas under U.S. GAAP the discount rate reflects the rate at which pension benefits can be effectively settled at the date of the financial statements. The impact of this difference on the Corporation's pension expense is included in the table below. The impact of the difference on the funded status of the Corporation's plans is not material.

CP Rail, a division of CP Limited, expenses interest related to the construction of assets. Under United States GAAP such interest would be capitalized as part of the cost of the asset.

The amounts reported as extraordinary items under Canadian GAAP would be included in the computation of net income before extraordinary items under United States GAAP (see Note 3).

	1987	1986	1985	1984	1983
	(in millions, except amounts per share)				
Net income before extraordinary items – Canadian GAAP	$ 636.7	$ 150.1	$ 252.7	$ 366.2	$ 137.4
Increased or (decreased) by:					
Oil and Gas	(2.5)	14.9	(22.2)	1.8	(1.3)
Real Estate	(5.3)	(6.3)	(5.2)	(6.4)	(6.1)
Deferred Income Taxes	4.6	12.3	20.7	6.5	(21.2)
Foreign Exchange	49.2	36.5	(28.0)	(31.7)	(10.1)
Pension Costs	34.2	—	—	—	—
Interest during Construction	17.0	17.4	12.9	4.0	—
Extraordinary Items	189.6	(230.4)	—	—	—
Net income – United States GAAP	$ 923.5	$ (5.5)	$ 230.9	$ 340.4	$ 98.7
Earnings per Ordinary Share:					
Canadian GAAP					
Before extraordinary items	$ 2.12	$ 0.50	$ 1.14	$ 1.70	$ 0.63
After extraordinary items	$ 2.75	$ (0.27)	$ 1.14	$ 1.70	$ 0.63
United States GAAP					
Continuing businesses	$ 3.14	$ 0.03	$ 1.34	$ 1.49	$ 0.54
Discontinued businesses	(0.07)	(0.05)	(0.30)	0.09	(0.09)
	$ 3.07	$ (0.02)	$ 1.04	$ 1.58	$ 0.45

The Corporation has not carried out a study of the effect that the new U.S. standard on accounting for income taxes, which was issued in December 1987, will have on its financial position as determined following U.S. generally accepted accounting principles. The Corporation expects, however, that the new standard, which is effective for fiscal years beginning after December 15, 1988 with earlier adoption being optional, will reduce deferred income taxes and increase net income in the year of adoption.

Oil and Gas Reporting

The following information on oil and gas producing activities was prepared in accordance with Financial Accounting Standards Board Statement No. 69. PanCanadian Petroleum Limited, a subsidiary of CP Limited, has prepared its financial statements utilizing the full cost method of accounting applied on a country-by-country cost centre basis, in accordance with Canadian generally accepted accounting principles.

Oil and Gas Production, Exploration and Development (Unaudited)

	1987	1986
	(in millions)	
Capitalized Costs		
Conventional petroleum and natural gas properties	$ 2,840.9	$ 2,640.4
Accumulated depletion and depreciation	1,157.5	1,029.8
	1,683.4	1,610.6
Other – net	281.9	296.8
	$ 1,965.3	$ 1,907.4

Cost Incurred in Conventional Oil and Gas Activities

Country	Purchase of Producing Properties	Property Acquisition	Exploration	Development
		(in millions)		
1987 Canada	$ —	$ 37.0	$ 74.7	$ 73.1
United States	—	4.7	13.2	4.2
Other	—	(3.5)*	0.3	—
	$ —	$ 38.2	$ 88.2	$ 77.3
1986 Canada	$ —	$ 9.6	$ 53.5	$ 65.6
United States	—	4.9	10.0	7.9
Other	—	—	0.8	—
	$ —	$ 14.5	$ 64.3	$ 73.5
1985 Canada	$ —	$ 23.2	$ 113.2	$ 135.8
United States	79.4	11.9	19.9	15.4
Other	—	—	6.2	—
	$ 79.4	$ 35.1	$ 139.3	$ 151.2

*Represents sale of United Kingdom properties.

Results of Operations for Producing Activities (Unaudited)

PanCanadian's conventional oil and gas activities may be summarized as follows:

	Canada	United States and Other	Total
1987		(in millions)	
Gross operating revenue	$ 534.1	$ 25.5	$ 559.6
Operating expenses	94.0	4.9	98.9
Depletion and depreciation	110.7	20.3	131.0
	329.4	0.3	329.7
Income taxes	134.7	—	134.7
Income from operations	$ 194.7	$ 0.3	$ 195.0
1986			
Gross operating revenue	$ 512.6	$ 28.3	$ 540.9
Operating expenses	105.3	6.0	111.3
Depletion and depreciation	86.4	32.2	118.6
	320.9	(9.9)	311.0
Income and revenue taxes	152.4	(0.6)	151.8
Income (loss) from operations	168.5	(9.3)	159.2
Unusual item	—	(94.8)	(94.8)
Income (loss)	$ 168.5	$ (104.1)	$ 64.4
1985			
Gross operating revenue	$ 852.3	$ 36.9	$ 889.2
Operating expenses	123.5	5.7	129.2
Depletion and depreciation	86.0	28.2	114.2
	642.8	3.0	645.8
Income and revenue taxes	341.3	(1.2)	340.1
Income from operations	$ 301.5	$ 4.2	$ 305.7

Oil and Gas Reserves (Unaudited)

PanCanadian's net proved reserves of conventional oil, natural gas and natural gas liquids as estimated by PanCanadian engineers are summarized below. "Net" reserves are the gross reserves underlying the properties in which PanCanadian has either a working interest, less all royalties and interests owned by others, or a royalty interest.

	Crude Oil (including natural gas liquids) (millions of barrels)			Natural Gas (billion cubic feet)		
	Canada	United States	Total	Canada	United States	Total
Net proved reserves: December 31, 1984	118.0	1.0	119.0	2,731	18	2,749
Revisions of previous estimates	4.1	0.1	4.2	17	3	20
Extensions and discoveries	14.8	0.6	15.4	82	4	86
Acquisitions of reserves in place	—	5.6	5.6	—	15	15
1985 Production	(16.2)	(0.6)	(16.8)	(123)	(4)	(127)
Net proved reserves: December 31, 1985	120.7	6.7	127.4	2,707	36	2,743
Revisions of previous estimates	(1.1)	(0.3)	(1.4)	(273)	1	(272)
Extensions and discoveries	6.7	0.7	7.4	33	—	33
1986 Production	(15.9)	(0.7)	(16.6)	(112)	(6)	(118)
Net proved reserves: December 31, 1986	110.4	6.4	116.8	2,355	31	2,386
Revisions of previous estimates	27.2	0.1	27.3	(25)	3	(22)
Extensions and discoveries	11.9	0.5	12.4	47	—	47
1987 Production	(17.5)	(0.7)	(18.2)	(113)	(5)	(118)
Net proved reserves: December 31, 1987	132.0	6.3	138.3	2,264	29	2,293

Proved reserves are those reserves which geological and engineering data demonstrate with reasonable certainty to be recoverable in the future at commercial production rates under present depletion methods and current operating conditions, prices and costs. Essentially all of PanCanadian's proved crude oil reserves are considered to be developed and recoverable through existing wells with existing facilities. In the case of PanCanadian's proved natural gas and associated liquid reserves, sufficient wells exist in most instances to meet required initial withdrawal rates from the respective reservoirs. As a result, the natural gas and natural gas liquids are considered to be developed even though additional drilling will be required in certain cases to drain the respective reservoirs in a desirable length of time.

Standardized Measure of Discounted Future Net Cash Flows (Unaudited)

The United States Financial Accounting Standards Board Statement No. 69 entitled "Disclosure About Oil and Gas Producing Activities" contains definitive rules for computing the discounted future net cash flows from proved conventional oil and gas reserves. The rules provide that the carrying value discounted at 10% of proved conventional oil and gas reserves be measured by applying year-end sales prices, or scheduled prices if contractual arrangements so provide, to the related reserve quantities, less deductions for future costs which will be required to develop and produce those reserves and estimated future income taxes. The change in carrying values of proved oil and gas reserves from year-end to year-end due to production and development expenditures, additions and revisions to proved oil and gas reserves, and price changes are to be reported in a separate table.

The Financial Accounting Standards Board acknowledges that the standardized measure of discounted net cash flows cannot be considered an estimate of fair market value. Likewise, it follows that the inclusion of this information should not be interpreted as indicating that PanCanadian believes that valid inferences as to PanCanadian's probable measure of fair market value or future economic position can be derived therefrom.

For the benefit of those investors interested in such information, PanCanadian has prepared the data below.

	Canada	United States	Total
1987		(in millions)	
Future cash inflows	$ 6,702.7	$ 155.2	$ 6,857.9
Future production and development costs	1,962.4	45.0	2,007.4
Future income tax expenses	1,759.4	—	1,759.4
Future net cash flows	2,980.9	110.2	3,091.1
10% annual discount for estimated timing of cash flows	1,496.6	45.9	1,542.5
Standardized measure of discounted future net cash flows	$ 1,484.3	$ 64.3	$ 1,548.6
1986			
Future cash inflows	$ 6,595.5	$ 162.3	$ 6,757.8
Future production and development costs	1,950.3	57.3	2,007.6
Future income tax expenses	1,582.5	—	1,582.5
Future net cash flows	3,062.7	105.0	3,167.7
10% annual discount for estimated timing of cash flows	1,570.2	41.6	1,611.8
Standardized measure of discounted future net cash flows	$ 1,492.5	$ 63.4	$ 1,555.9

The following are the principal sources of change in the standardized measure of discounted future net cash flows:

	1987	1986	1985
		(in millions)	
Standardized measure of discounted future net cash flows at beginning of year	$ 1,555.9	$ 2,545.5	$ 2,112.6
Add:			
Additions to proved reserves, net of capital and production costs	139.6	84.0	275.5
Acquisition of reserves in place	—	—	75.4
Net changes in prices and production costs	2.8	—	—
Expenditures that reduced estimated future development costs	15.5	22.7	20.8
Accretion of discount	211.8	392.2	394.1
Revisions of previous estimates	176.3	—	128.1
Net changes in income and revenue taxes	—	915.5	464.9
	546.0	1,414.4	1,358.8
Less:			
Net changes in prices and production costs	—	1,585.9	165.9
Sales of oil and gas produced, net of production costs and mineral taxes	456.1	430.6	760.0
Revisions of previous estimates	—	387.5	—
Net changes in income tax	97.2	—	—
	553.3	2,404.0	925.9
Standardized measure of discounted future net cash flows at end of year	$ 1,548.6	$ 1,555.9	$ 2,545.5

Future net cash flows were computed using year-end prices, and year-end statutory tax rates (adjusted for permanent differences and for known scheduled future rate changes) that relate to existing proved oil and gas reserves.

Taxation of United States Shareholders

Under the terms of the Canadian Income Tax Act and the United States-Canada tax convention, taxable dividends paid to United States resident shareholders of CP Limited (other than tax exempt organizations) are subject to a Canadian withholding tax of 15%.

Generally, capital gains on the disposition by United States residents of securities issued by CP Limited are exempt from Canadian tax unless the securities were either held in the conduct of a Canadian business or held by a former long-term resident of Canada.

Quarterly Financial Information (Unaudited)
Statement of Consolidated Income

For the three months ended	1987 March 31	June 30	September 30	December 31
	(in millions, except amounts per share)			
Transportation				
Revenues	$ 1,069.7	$ 1,146.0	$ 1,036.7	$ 1,173.5
Expenses including income taxes	1,014.2	1,074.0	1,017.8	1,093.6
	55.5	72.0	18.9	79.9
Minority interest	(0.8)	1.8	(7.4)	3.0
Net income	56.3	70.2	26.3	76.9
Energy				
Revenues	237.8	228.3	252.3	270.3
Expenses including income taxes	192.5	197.4	203.7	214.1
	45.3	30.9	48.6	56.2
Minority interest	5.9	4.4	6.3	6.8
Net income	39.4	26.5	42.3	49.4
Forest Products				
Revenues	644.9	700.4	698.4	740.5
Expenses including income taxes	610.6	648.5	638.9	664.7
	34.3	51.9	59.5	75.8
Minority interest	9.3	11.1	14.4	16.7
Net income	25.0	40.8	45.1	59.1
Real Estate and Hotels				
Revenues	141.8	157.5	192.7	168.3
Expenses including income taxes	136.4	147.0	171.0	156.9
	5.4	10.5	21.7	11.4
Minority interest	0.2	0.2	0.2	0.2
Net income	5.2	10.3	21.5	11.2
Manufacturing and Other				
Revenues	719.1	768.8	830.6	863.9
Expenses including income taxes	712.9	764.8	799.9	844.9
	6.2	4.0	30.7	19.0
Minority interest	1.3	3.3	8.3	16.5
Net income	4.9	0.7	22.4	2.5
Continuing Businesses	130.8	148.5	157.6	199.1
Discontinued Businesses				
Revenues	186.3	224.4	124.3	—
Expenses including income taxes	191.0	219.4	121.6	—
	(4.7)	5.0	2.7	—
Minority interest	0.7	1.0	0.6	—
Net income	(5.4)	4.0	2.1	—
Total revenues	2,911.4	3,130.7	3,053.7	3,112.8
Total expenses including income taxes and minority interest	2,786.0	2,978.2	2,894.0	2,913.7
Net income before extraordinary items	125.4	152.5	159.7	199.1
Extraordinary items	193.3	—	160.8	(164.5)
Net Income	$ 318.7	$ 152.5	$ 320.5	$ 34.6
Earnings per Ordinary Share				
Before extraordinary items	$ 0.42	$ 0.51	$ 0.53	$ 0.66
After extraordinary items	$ 1.06	$ 0.51	$ 1.07	$ 0.11

Quarterly Financial Information (Unaudited)
Statement of Consolidated Income

For the three months ended	1986 March 31	June 30	September 30	December 31
	(in millions, except amounts per share)			
Transportation				
Revenues	$ 1,025.7	$ 1,080.1	$ 967.7	$ 1,126.5
Expenses including income taxes	1,015.5	1,046.9	960.8	1,104.5
	10.2	33.2	6.9	22.0
Minority interest	0.4	2.7	(2.7)	(21.4)
Net income	9.8	30.5	9.6	43.4
Energy				
Revenues	316.1	242.3	229.3	255.9
Expenses including income taxes	257.7	203.5	208.4	215.2
	58.4	38.8	20.9	40.7
Unusual item	51.3	43.5	—	—
	7.1	(4.7)	20.9	40.7
Minority interest	1.8	(0.6)	2.5	5.1
Net income	5.3	(4.1)	18.4	35.6
Forest Products				
Revenues	538.8	628.5	587.4	578.7
Expenses including income taxes	548.5	617.8	574.0	547.5
	(9.7)	10.7	13.4	31.2
Minority interest	(0.3)	3.0	5.4	8.3
Net income	(9.4)	7.7	8.0	22.9
Real Estate and Hotels				
Revenues	153.9	156.5	168.5	165.3
Expenses including income taxes	147.3	145.7	153.4	153.9
	6.6	10.8	15.1	11.4
Minority interest	0.1	0.2	0.2	0.2
Net income	6.5	10.6	14.9	11.2
Manufacturing and Other				
Revenues	911.1	936.8	1,145.2	968.4
Expenses including income taxes	921.5	919.2	1,172.8	1,019.5
	(10.4)	17.6	(27.6)	(51.1)
Minority interest	(4.2)	11.9	(8.9)	(20.9)
Net income	(6.2)	5.7	(18.7)	(30.2)
Continuing Businesses	6.0	50.4	32.2	82.9
Discontinued Businesses				
Revenues	783.6	1,027.7	929.5	632.7
Expenses including income taxes	837.3	1,037.9	914.2	621.3
	(53.7)	(10.2)	15.3	11.4
Minority interest	(11.2)	(3.5)	(3.8)	2.7
Net income	(42.5)	(6.7)	19.1	8.7
Total revenues	3,621.4	3,953.5	3,933.6	3,605.3
Total expenses including income taxes and minority interest	3,657.9	3,909.8	3,882.3	3,513.7
Net income before extraordinary items	(36.5)	43.7	51.3	91.6
Extraordinary items	—	(362.5)	29.9	102.2
Net Income	$ (36.5)	$ (318.8)	$ 81.2	$ 193.8
Earnings per Ordinary Share				
Before extraordinary items	$ (0.12)	$ 0.15	$ 0.17	$ 0.30
After extraordinary items	$ (0.12)	$ (1.07)	$ 0.27	$ 0.65

Quarterly Financial Information (Unaudited)

Net Income

For the three months ended	1987 March 31	June 30	September 30	December 31
	(in millions)			
Transportation				
CP Rail	$ 51.3	$ 61.5	$ 22.3	$ 60.8
Soo Line Corporation	(1.5)	1.5	(9.0)	3.3
CP Ships	6.0	5.4	5.9	25.7
CP Trucks	0.5	1.8	7.1	(12.9)
	56.3	70.2	26.3	76.9
Energy				
PanCanadian Petroleum Limited	35.7	26.1	39.3	41.4
Fording Coal Limited	3.7	0.4	3.0	8.0
	39.4	26.5	42.3	49.4
Forest Products				
CIP Inc.	14.3	29.7	30.9	42.9
Great Lakes Forest Products Limited	10.7	11.1	14.2	16.2
	25.0	40.8	45.1	59.1
Real Estate and Hotels				
Marathon Realty Company Limited	7.7	6.7	10.3	8.7
Canadian Pacific Hotels Corporation	(2.5)	3.6	11.2	2.5
	5.2	10.3	21.5	11.2
Manufacturing and Other				
The Algoma Steel Corporation, Limited	1.2	3.7	0.9	8.9
AMCA International Limited	(6.1)	(6.1)	2.1	3.1
Syracuse China Corporation	1.2	1.8	1.3	1.7
CP Telecommunications	1.4	1.4	1.2	(5.1)
Other	7.2	(0.1)	16.9	(6.1)
	4.9	0.7	22.4	2.5
Continuing Businesses	130.8	148.5	157.6	199.1
Discontinued Businesses				
Maple Leaf Mills Limited	2.1	4.0	2.1	—
Canadian Pacific Air Lines, Limited	(7.5)	—	—	—
	(5.4)	4.0	2.1	—
Net income before extraordinary items	125.4	152.5	159.7	199.1
Extraordinary items	193.3	—	160.8	(164.5)
Net Income	$ 318.7	$ 152.5	$ 320.5	$ 34.6

Quarterly Financial Information (Unaudited)
Net Income

For the three months ended	1986 March 31	June 30	September 30	December 31
	(in millions)			
Transportation				
CP Rail	$ 18.8	$ 32.0	$ 5.5	$ 63.1
Soo Line Corporation	(1.1)	1.5	(5.0)	(28.9)
CP Ships	(8.0)	(4.6)	6.1	6.6
CP Trucks	0.1	1.6	3.0	2.6
	9.8	30.5	9.6	43.4
Energy				
PanCanadian Petroleum Limited	1.3	(7.3)	14.2	30.9
Fording Coal Limited	4.0	3.2	4.2	4.7
	5.3	(4.1)	18.4	35.6
Forest Products				
CIP Inc.	(9.2)	4.7	3.2	14.2
Great Lakes Forest Products Limited	(0.2)	3.0	4.8	8.7
	(9.4)	7.7	8.0	22.9
Real Estate and Hotels				
Marathon Realty Company Limited	6.7	6.9	3.9	11.4
Canadian Pacific Hotels Corporation	(0.2)	3.7	11.0	(0.2)
	6.5	10.6	14.9	11.2
Manufacturing and Other				
The Algoma Steel Corporation, Limited	(12.2)	(6.6)	(16.1)	(10.6)
AMCA International Limited	0.5	4.5	(3.6)	(21.4)
Syracuse China Corporation	1.0	2.1	1.1	3.1
CP Telecommunications	2.2	2.1	1.7	2.1
Other	2.3	3.6	(1.8)	(3.4)
	(6.2)	5.7	(18.7)	(30.2)
Continuing Businesses	6.0	50.4	32.2	82.9
Discontinued Businesses				
Maple Leaf Mills Limited	0.7	3.8	5.1	6.6
Canadian Pacific Air Lines, Limited	(27.2)	(2.9)	24.4	1.5
Cominco Ltd.	(16.0)	(7.6)	(10.4)	0.6
	(42.5)	(6.7)	19.1	8.7
Net income before extraordinary items	(36.5)	43.7	51.3	91.6
Extraordinary items	—	(362.5)	29.9	102.2
Net Income	$ (36.5)	$ (318.8)	$ 81.2	$ 193.8

	1987	1986	1985	1984
(Dollars in millions, except amounts per share)				
Revenues				
Continuing Businesses	**$ 11,673.6**	$ 11,740.3	$ 11,609.3	$ 10,865.2
Discontinued Businesses	**535.0**	3,373.5	3,518.7	3,860.6
	$ 12,208.6	$ 15,113.8	$ 15,128.0	$ 14,725.8
Net income from:				
Transportation	**$ 229.7**	$ 93.3	$ 108.4	$ 177.9
Energy	**157.6**	55.2	201.9	178.5
Forest Products	**170.0**	29.2	(16.8)	(7.0)
Real Estate and Hotels	**48.2**	43.2	37.8	30.0
Manufacturing and Other	**30.5**	(49.4)	(9.7)	(47.2)
Discontinued Businesses	**0.7**	(21.4)	(68.9)	34.0
Net income before extraordinary items	**636.7**	150.1	252.7	366.2
Extraordinary items	**189.6**	(230.4)	—	—
Net income	**$ 826.3**	$ (80.3)	$ 252.7	$ 366.2
Total assets	**$ 18,000.7**	$ 17,698.7	$ 21,331.5	$ 18,670.7
Total long term debt	**$ 4,469.8**	$ 5,114.7	$ 6,683.5	$ 5,609.0
Perpetual 4% Consolidated Debenture Stock	**197.7**	184.6	185.0	157.8
Minority shareholders' interest in subsidiary companies	**1,139.0**	1,344.7	2,031.7	2,981.3
Shareholders' equity	**6,461.5**	5,781.9	6,061.0	4,416.3
Total capitalization	**$ 12,268.0**	$ 12,425.9	$ 14,961.2	$ 13,164.4
Per Ordinary Share:				
Net income				
– before extraordinary items	**$ 2.12**	$ 0.50	$ 1.14	$ 1.70
– after extraordinary items	**$ 2.75**	$ (0.27)	$ 1.14	$ 1.70
Dividends	**$ 0.54**	$ 0.48	$ 0.48	$ 0.47
Number of Ordinary Shares (in millions)				
Actual	**302.8**	299.5	297.7	215.0
Average	**300.5**	298.3	220.8	215.0
Rates of Return:				
Average capital employed	**8.1%**	4.7%	5.9%	7.7%
Average shareholders' equity	**10.4%**	2.5%	4.8%	8.7%
Debt: equity ratio	**38:62**	43:57	46:54	44:56

*Represents non-cash gain arising from a share issue by a subsidiary in which CP Limited did not participate. The gain, which in accordance with CICA recommendations is included in the computation of consolidated income, was previously recorded throug retained income.

1983	1982	1981	1980	1979	1978
$ 9,322.6	$ 9,040.1	$ 8,904.2	$ 7,137.8	$ 6,049.3	$ 5,149.4
3,517.8	3,323.0	3,496.6	2,904.5	2,169.0	1,608.6
$ 12,840.4	$ 12,363.1	$ 12,400.8	$ 10,042.3	$ 8,218.3	$ 6,758.0
$ 127.5	$ 112.8	$ 198.4	$ 193.3	$ 151.0	$ 84.2
143.0	146.4	114.8	161.2	108.1	94.7
(69.4)	(68.7)	11.4	33.5	37.8	15.4
22.8	24.5	25.6	20.6	16.0	0.2
(69.5)	12.2	109.7	96.3	75.7	77.1
(17.0)	(39.5)	15.5	77.7	105.9	51.5
137.4	187.7	475.4	582.6	494.5	323.1
—	—	—	72.2*	—	—
$ 137.4	$ 187.7	$ 475.4	$ 654.8	$ 494.5	$ 323.1
$ 17,486.4	$ 17,162.5	$ 16,220.5	$ 12,941.2	$ 10,906.0	$ 9,175.2
$ 5,536.4	$ 5,538.7	$ 4,647.6	$ 2,997.5	$ 2,623.6	$ 2,454.2
292.5	292.5	292.5	292.5	292.5	292.5
2,660.2	2,573.3	2,464.2	2,240.2	1,742.7	1,301.3
3,956.7	3,901.3	3,840.2	3,444.2	2,909.6	2,521.9
$ 12,445.8	$ 12,305.8	$ 11,244.5	$ 8,974.4	$ 7,568.4	$ 6,569.9
$ 0.63	$ 0.87	$ 2.20	$ 2.70	$ 2.29	$ 1.49
$ 0.63	$ 0.87	$ 2.20	$ 3.04	$ 2.29	$ 1.49
$ 0.47	$ 0.55	$ 0.63	$ 0.62	$ 0.57	$ 0.37
215.0	215.0	215.0	215.0	215.0	215.0
215.0	215.0	215.0	215.0	215.0	215.0
4.8%	6.3%	10.6%	13.3%	13.7%	10.7%
3.5%	4.8%	13.1%	18.3%	18.2%	13.5%
47:53	47:53	44:56	37:63	39:61	42:58

Geographic Distribution of Net Property Investment

at December 31, 1987		Properties, at Cost less Depreciation	Percent of Total
		(in millions)	
Canada			
Atlantic Provinces	$	**342.2**	3
Quebec		**1,148.7**	9
Ontario		**2,980.4**	23
Manitoba		**236.9**	2
Saskatchewan		**474.0**	4
Alberta		**2,500.8**	20
British Columbia		**1,689.7**	13
N.W.T., Yukon & Offshore		**35.9**	—
Transportation Equipment		**1,084.0**	8
		10,492.6	82
Outside Canada			
United States		**2,143.9**	17
Other		**21.9**	—
Ocean Ships		**179.8**	1
		2,345.6	18
Total	$	**12,838.2**	100

Ordinary Share Market Prices

	Toronto Stock Exchange				New York Stock Exchange			
	1987		1986		**1987**		1986	
	High	Low	High	Low	High	Low	High	Low
	(Canadian dollars)				(U.S. dollars)			
First Quarter	**25⅜**	**17⅝**	20½	16¼	**19⅜**	**12¾**	14⅝	11⅝
Second Quarter	**25⅝**	**21¾**	20⅛	16½	**19¼**	**16**	14½	11⅞
Third Quarter	**30¼**	**25**	17	14	**22⅞**	**18¾**	12¼	10
Fourth Quarter	**28¼**	**17¼**	18	15	**21½**	**12¾**	13	10⅞
Year	**30¼**	**17¼**	20½	14	**22⅞**	**12¾**	14⅝	10

Transfer Agents

Montreal Trust Company
1690 Hollis Street
Halifax, N.S. B3J 3C5

53 King Street
Saint John, N.B. E2L 1G5

1 Place Ville Marie
Montreal, Quebec H3B 4A8

15 King Street West
Toronto, Ontario M5H 1B4

221 Portage Avenue
Winnipeg, Manitoba R3C 2J1

1778 Scarth Street
Regina, Saskatchewan S4P 2G1

411-8th Avenue, S.W.
Calgary, Alberta T2P 1E7

510 Burrard Street
Vancouver, B.C. V6C 3B9

Bank of Montreal Trust Company
2 Wall Street
New York, N.Y. 10005

**Deputy Secretary,
Canadian Pacific Limited**
Southside, 105 Victoria Street
London, England SW1E 6QT

Stock and Share Listings

Debenture Stock (Sterling) listed on:
London, Eng. Stock Exchange

Debenture Stock (U.S. Currency) listed on:
New York Stock Exchange

Preference Shares (Sterling) listed on:
Montreal, Toronto, Vancouver and London, Eng. Stock Exchanges

Preference Shares (Canadian Dollar) listed on:
Montreal, Toronto, Vancouver and London, Eng. Stock Exchanges

Ordinary Shares listed on:
Montreal, Toronto, Alberta, Vancouver, New York and London, Eng. Stock Exchanges.

Share Holdings

The number of registered holdings of the voting shares of the Corporation at December 31, 1987 was 69,917.

The distribution by countries of total voting rights of the Ordinary and Preference Shares at that date was as follows:

Canada	70.60%
United States	25.13
United Kingdom	1.42
Other Countries	2.85
	100.00%

Dividend Reinvestment and Share Purchase Plan

Eligible holders of Canadian Pacific Limited Ordinary Shares may acquire new Ordinary Shares through reinvestment of cash dividends and/or investing optional cash payments, without paying brokerage commissions or administrative charges. An information circular providing details of the Plan may be obtained by writing to the Vice-President and Secretary of the Corporation.

Investor Relations

Institutional investors, brokers, security analysts and others desiring financial information about Canadian Pacific should contact:

N. E. Wale
Vice-President Investor and Industry Relations
Canadian Pacific Limited
P.O. Box 6042, Station A
Montreal, Quebec
H3C 3E4

Shareholders having inquiries or wishing to obtain copies of the Corporation's non-consolidated (parent company) financial statements, Annual Information Form filed with Canadian Securities Commissions or Form 10-K filed with the United States Securities and Exchange Commission should write to:

D. J. Deegan
Vice-President and Secretary
Canadian Pacific Limited
P.O. Box 6042, Station A
Montreal, Quebec
H3C 3E4

Board of Directors

Lloyd I. Barber, O.C., Ph.D.
President, University of Regina
Regina

Michel Bélanger
Chairman of the Board
and Chief Executive Officer
National Bank of Canada, Montreal

F.S. Burbidge, O.C.
Corporate Director
Former Chairman
Canadian Pacific Limited, Montreal

* **Robert W. Campbell**
Chairman, Canadian Pacific Limited
Calgary

M. James Fielding
Chairman of the Board
Alexander Centre Industries Limited
Sudbury

† **Thomas M. Galt**
Chairman and Chief Executive Officer
Sun Life Assurance Company
of Canada, Toronto

Allard Jiskoot
Director and Former Chairman
of the Board, Pierson, Heldring
& Pierson N.V., Amsterdam,
The Netherlands

A.S. Kingsmill, Q.C.
Partner, Law firm of Tilley,
Carson & Findlay, Toronto

*† **C. Merv Leitch, Q.C.**
Partner, Law firm of Macleod Dixon
Calgary

The Hon. Peter Lougheed, P.C., C.C., Q.C.
Senior Partner, Law firm of Bennett
Jones, Calgary

Angus A. MacNaughton
President
Genstar Investment Corporation
San Francisco

Donald C. Matthews
President and General Manager
Highland Stock Farms Ltd.
Calgary

Stanley A. Milner
President and Chief Executive Officer
Chieftain Development Co. Ltd.
Edmonton

William D. Mulholland
Chairman and Chief Executive Officer
Bank of Montreal, Toronto

* **Paul L. Paré, O.C.**
Director and Former Chairman
Imasco Limited
Montreal

*† **Claude Pratte, Q.C.**
Counsel, Law firm of Stein, Monast,
Pratte & Marseille, Quebec

*† **C. Douglas Reekie**
Vice-Chairman of the Board
CAE Industries Ltd., Toronto

Thomas G. Rust, LL.D.
Chairman
Canada Harbour Place Corporation
Vancouver

R.D. Southern
Deputy Chairman and Chief
Executive Officer, ATCO Ltd.
Calgary

* **W.W. Stinson**
President and Chief Executive
Officer, Canadian Pacific Limited
Montreal

Allan R. Taylor
Chairman and Chief Executive
Officer, The Royal Bank of Canada
Toronto

Jean Casselman Wadds, O.C.
Corporate Director, Former
Commissioner, Royal Commission on
the Economic Union and
Development Prospects for Canada
Prescott

* **Ray D. Wolfe, C.M.**
Chairman and Chief Executive Officer
The Oshawa Group Limited
Toronto

* Member of the Executive Committee
† Member of the Audit Committee

Officers

Robert W. Campbell
Chairman, Calgary

W.W. Stinson
President and Chief Executive
Officer, Montreal

K.S. Benson
Vice-President Personnel
and Administration, Montreal

D.J. Deegan
Vice-President and Secretary
Montreal

S.E. Eagles
Vice-President Corporate, Toronto

R.K. Gamey
Group Vice-President, Calgary

J.F. Hankinson
Group Vice-President, Calgary

G.F. Michals
Vice-President Finance and
Accounting, Montreal

C.R.O. Munro, Q.C.
Vice-President Law and General
Counsel, Montreal

N.E. Wale
Vice-President Investor and Industry
Relations, Montreal

D.E. Sloan
Treasurer, Toronto

J. Thomson
Comptroller, Montreal

Directorate

Mr. Lucien G. Rolland, O.C. and Mr. F.H. Sherman retired as directors of the Corporation at the Annual Meeting of Shareholders held on May 6, 1987. The directors desire to record their recognition and appreciation of the significant contributions made to the affairs of the Corporation by these members of the Board during their respective tenures.

A copy of the 1987 annual report of each of the following companies can be obtained by writing to its Secretary at the address shown below:

Soo Line Corporation
Soo Line Building
Box 530
Minneapolis, Minnesota 55440

PanCanadian Petroleum Limited
PanCanadian Plaza
P.O. Box 2850
Calgary, Alberta
T2P 2S5

Great Lakes Forest Products Limited
P.O. Box 430
Thunder Bay, Ontario
P7C 4W3

Marathon Realty Company Limited
Suite 1100, University Place
123 Front Street West
Toronto, Ontario
M5J 2M2

Canadian Pacific Hotels Corporation
One University Avenue
Suite 1400
Toronto, Ontario
M5J 2P1

The Algoma Steel Corporation, Limited
503 Queen Street East
Sault Ste. Marie, Ontario
P6A 5P2

AMCA International Limited
Dartmouth National Bank Building
Hanover, New Hampshire 03755

Steep Rock Resources Inc.
Suite 302, North York Square
45 Sheppard Avenue, East
North York, Ontario
M2N 5W9

Canadian Pacific Securities Limited
Suite 1400, University Place
123 Front Street West
Toronto, Ontario
M5J 2M8

Si vous désirez vous procurer la version française du présent rapport, veuillez vous adresser au vice-président et secrétaire, Canadien Pacifique Limitée, C.P. 6042, succursale A, Montréal, Québec, Canada H3C 3E4

Legal deposit, 1st quarter (198
Printed in Canad

Canadian Pacific Limited

106th Annual Meeting of Shareholders

Report of Proceedings May 6, 1987

Transportation

Oil and Gas

Forest Products

Steel and Industrial Products

Real Estate

Other Businesses

Financial and Miscellaneous

Report of Proceedings of the One Hundred and Sixth Annual Meeting of Shareholders held at Montreal, on Wednesday, May 6, 1987.

The meeting assembled in accordance with the convening notice at 11:00 a.m., Montreal time, at Le Château Champlain, Montreal.

In accordance with the by-laws of the Corporation, the Chairman of the Corporation, Mr. Robert W. Campbell, presided and the Vice-President and Secretary of the Corporation acted as secretary of the meeting.

There were 208 shareholders and proxyholders present at the meeting. A total of 198,113,254 votes were represented consisting of 197,964,872 votes in respect of which proxies had been deposited with the Corporation in accordance with the proxy requirements set forth in the notice calling the meeting and 148,382 votes represented by shareholders who attended the meeting in person.

The Chairman introduced members of the Board of Directors and referred to the retirement from the Board at this meeting of Messrs. Lucien G. Rolland, O.C. and F. H. Sherman. He and the shareholders acknowledged the significant contribution of the aforementioned directors to the affairs of the Corporation. He then introduced the representatives of the Corporation's auditors.

With the approval of the meeting, the Chairman named Messrs. A. J. Gareau and W. J. Johnston, both employees of the Montreal Trust Company, to act as Scrutineers.

The Chairman informed the meeting that the secretary had deposited with him a statutory declaration establishing the publication of newspaper advertisements and the giving of written notice as required by Section 128 of the Canada Business Corporations Act (CBCA) and in addition the sending of notice of the time and place of the meeting to each shareholder entitled to vote thereat and to each director and to the auditors of the Corporation as required by Section 129 of the CBCA. The Chairman then declared the meeting to be regularly called and properly constituted for the transaction of business.

Mr. James B. Pitblado moved and Mr. René Lemyre seconded the following resolution concerning the confirmation of minutes of the Annual Meeting of Shareholders held on May 7, 1986:

RESOLVED, that reading of the minutes of the Annual Meeting of Shareholders held on May 7, 1986, be dispensed with and that said minutes be taken as read and confirmed.

The question having been put to a vote, the Chairman declared the motion carried.

The President and Chief Executive Officer then addressed the meeting as follows:

The President:
Last year was an eventful one for Canadian Pacific, perhaps even a watershed.

Although our results are still far from satisfactory, we are well on our way to producing much better returns for our shareholders.

The basis for substantive change began in 1985 when we merged Canadian Pacific Limited and Canadian Pacific Enterprises.

In addition to substantial financial and tax advantages, the merger gave us the opportunity to operate with one board and one management team – a distinct advantage in today's world where quick reactions to changing circumstances are vital.

For a company like Canadian Pacific, with its 106-year history, change has a special meaning.

Old values like integrity and attention to customer and employee needs endure. But in a world where the rate of change has accelerated dramatically in the post-war years, our business strategy must be constantly and carefully examined under a microscope.

We are dedicated to that kind of continuing reappraisal.

In 1986, this commitment to question everything led us to take several significant steps to strengthen our balance sheet and improve our earnings base.

As you know, we consolidated our holdings in Fording Coal Limited and AMCA International Limited to give us 100 per cent of Fording and a direct 50.6 per cent interest in AMCA.

We also announced substantial write-downs in the value of our shipping fleet and certain assets of The Algoma Steel Corporation, Limited and AMCA. With that unpleasant, but necessary task behind us, we made two other extremely difficult – and I can tell you – very emotional – decisions to sell Cominco and CP Air.

Both companies had been part of the fabric of Canadian Pacific for a long time: Cominco since the turn of the century and CP Air since the coming of the aircraft to the Canadian hinterland in the west and the north.

Both had been successful in their time and each has added lustre to the Canadian Pacific name around the world.

However, as we began to develop our new business strategy, we came to realize that the sale of both Cominco and the airline would not only improve our financial results in the long term, but would also enable those companies to prosper in concert with new owners.

I think the reaction in the marketplace to both these transactions has proven us right.

The recent decision to sell Maple Leaf Mills Limited was prompted by the same considerations. Although Maple Leaf has a fine record in the food business, it is very small in the Canadian Pacific context.

We are confident Maple Leaf will bring a good price.

The corporate soul-searching, though, is not limited just to the confines of our head office in Montreal. Each company in our group is going through the same deep and sometimes agonizing self-examination. Through this process, successful units become stronger and struggling entities begin their return to health.

For example, the Soo Line Corporation recently announced the sale of its Lake States properties covering its branch lines in Wisconsin and upper Michigan. This divestiture will strengthen the Soo's balance sheet and leave it with a core railroad better able to meet the challenges of its marketplace.

Last July, AMCA began a major restructuring program that will mould its main segments into a more homogeneous blend with which to build a strong future. The company has already made several key transactions and others are in the works.

Faced with changing conditions in its customers' markets and heightened competition from other modes of transportation, CP Rail has been organized into two business units: Vancouver-based Heavy Haul Systems and Intermodal Freight Systems, headquartered in Toronto.

This market-driven structure will make the railway more flexible in dealing with its customers and better positioned to cope with rapid change in its competitive and regulatory environment.

The basic aim is to identify and concentrate on its strengths.

In fact, building from strength is the key element in the fundamental strategy we have adopted at Canadian Pacific.

Looking over the existing range of businesses in the Canadian Pacific portfolio, we had to ask ourselves where we could focus our financial resources and managerial efforts to achieve the maximum return for our shareholders, our customers, our employees and the community at large.

Put more simply, we don't want to be in any business unless we can be the best. Excellence must be our hallmark.

And part of being the best means being willing to make substantial investments in modernization and expansion programs. Obviously, it's easier to support these major outlays over a narrower range of businesses.

Right now, substantial financial commitments are being made in the railways, forest products, coal, hotels and steel.

No doubt it's true that a wide variety in assets can often provide welcome protection against downturns in one or several industries.

But, we have become convinced that if we limit our focus, we will have a much better chance of turning our remaining companies into industry leaders while, at the same time, capitalizing on the solid benefits of some diversity.

Today's Canadian Pacific is made up of four strong core areas which we think we can manage inventively, with some real entrepreneurial flair:

- Freight transportation (railways, trucks and ships);
- Natural resources (oil and gas and forest products);
- Steel and manufacturing (Algoma and AMCA);
- Real estate (Marathon).

Complementing the four cores is a cadre of smaller businesses with growth potential like CP Hotels, CNCP Telecommunications, Fording Coal and Syracuse China.

These companies either create a synergy with the core sectors or have inherent competitive advantages that we can expand on.

In the future, we are interested in developing a fifth core – something we can run well, that fits in with our other holdings and that is well-managed.

We're not actively looking at the moment and we have no specific targets in mind. But we do have our eyes and ears open.

In 1986 and in the first quarter of 1987, I think a lot has been accomplished. With the proceeds from the Cominco and CP Air deals, we have reduced our consolidated long-term debt by $2 billion and improved our earnings potential.

Our first quarter results certainly indicate that we're on the right track.

Consolidated net income before extraordinary items reached $125.4 million or 42 cents per Ordinary share, compared with a restated net loss of $36.5 million or 12 cents a share for the first quarter of 1986.

After extraordinary items, consisting of a $172.5-million net gain from the sale of CP Air and a $20.8-million net gain from selling a CP Ships building in London,

England, CP Limited's consolidated net income reached $318.7 million or $1.06 per Ordinary share.

The improvement spread through almost every sector of the company, with the best news coming from Transportation, Oil and Gas and Forest Products.

Looking at the balance of 1987, I am optimistic.

In the freight transportation sector, the Soo Line has made real progress in absorbing the Milwaukee Road and is poised to generate positive earnings.

CP Rail had a strong first quarter, both in revenues and traffic volumes. However, the grain-rate freeze, introduced by the federal government in 1985, means grain revenues will be below normal to the end of the current crop year on July 31.

Expenses will come under increased pressure from higher provincial diesel fuel taxes in Manitoba and Alberta.

To my mind, the constant escalation of taxes imposed on the railways by the provinces, particularly in Manitoba and Saskatchewan, is one of the most disconcerting developments of recent years.

In addition, we have serious concerns about some aspects of the revised National Transportation Act, (Bill C-18) which is expected to become law around the end of the year.

Like all railways in North America, CP Rail must rationalize its rail network to match the shifts in traffic patterns of the last several decades or lose its ability to be a competitive force in transportation in Canada.

Although we realize that that fact is well understood by the federal government and most rail users, we do not think the proposed legislation yet contains a genuinely realistic formula for line rationalization.

Abandoning a line usually demands much more than just withdrawing service and taking up the track. It often means CP Rail has to make major capital investments in intermodal facilities and equipment to continue to serve existing traffic.

However, the railway will be hard pressed to finance this new investment if, as it fears, other aspects of the new legislation combine to lower its cash flow significantly. CP Rail is especially concerned about provisions which would give U.S. railroads an advantage over their Canadian competitors and thus divert Canadian traffic and rail revenues south of the border when there is no opportunity to work the same situation in reverse.

Bill C-18 is on the verge of being passed in Parliament. We hope our legislators will be able to find equitable solutions to these concerns.

We are also hopeful that a settlement can be reached in the contract dispute between the railway and its major unions. A federal conciliation commissioner has been appointed to hear representations from each side.

On the shipping side of our business, we will be solidly in the black in both container and bulk operations. Cost management has been very effective. In current dollars, the costs of the bulk operations today are the same as they were in 1978, a remarkable achievement.

Although CP Trucks may be changing its asset mix somewhat, it will be expanding on both sides of the border. The motor carrier business is an integral part of Canadian Pacific's freight transportation system.

In natural resources, we think we have the premier oil and gas company in PanCanadian Petroleum Limited. The company has an excellent land position, almost no debt and a good exploration track record.

With the large ceiling-test write-down behind them, PanCanadian will have a better performance this year particularly since the crude oil price seems to be holding in the $18-a-barrel range.

Natural gas, however, is another story. Weak demand, reduced prices and the effect of deregulation will have a negative impact.

The forest products sector has already come back very strongly. We have two excellent companies in Great Lakes Forest Products Limited and CIP Inc.

Great Lakes has recently said it plans to install a new fine paper machine at Dryden, Ontario and a new newsprint machine at Thunder Bay. Because of improved markets and the addition of a fifth partner, Great Lakes is re-evaluating and updating its proposed joint venture with U.S. publishers to build a new newsprint mill in the State of Washington.

At CIP, the heavy acquisition debt burden has been eased and the company is in a position to take advantage of its broad product line and modernization programs. CIP has also announced a feasibility study for the construction of a new newsprint mill at Gold River on Vancouver Island.

Of immediate concern, though, is the state of current labor negotiations in the Eastern Canadian forest industry.

Marathon, our real estate arm, is continuing to develop a well-balanced combination of properties through a program of selective rationalization and expansion, both in Canada and the United States.

The third core – Algoma and AMCA – has, I think, weathered the storms of the past few years and is on the way to better results.

The impact of Algoma's Program of Action, a wide-ranging strategy of cost reduction and facility integration has already paid off in improved results in the first quarter.

But, a critical factor in Algoma's future is the negotiation of a new labor contract with the United Steelworkers that truly reflects Algoma's unique situation.

At AMCA, a significant turn-around is also underway. A new management group is progressing with the restructuring program to improve AMCA's balance sheet and develop its advantages in manufacturing and construction.

For the rest of 1987 and beyond, our fundamental goal at Canadian Pacific is to improve our return on equity substantially. That means improving results in our core businesses, while at the same time strengthening our asset base through rationalization and acquisition.

We are determined not to let our decisions be dictated unduly by events beyond our control. To achieve that goal, we have to keep our balance sheet in good shape to give us the financial flexibility we need to take advantage of the right opportunities at the right time.

Through their contributions to pension funds and their investments in other institutional instruments, thousands of individual Canadians, as well as our valued primary shareholders, have a piece of Canadian Pacific.

That is why improving our financial performance means so much to so many people. I am convinced that over the next few years as we continue the strategy I've outlined, Canadian Pacific will solidify its reputation as one of the best investments available in North America.

In closing, I would like to express the appreciation of the board and the senior management team to the employees of the company. We have very dedicated people in the subsidiary companies and at the parent company level who have worked extremely hard over the last few years. We are very proud of all of them.

On behalf of the directors, the Chairman then placed before the meeting the Report of the Directors, accompanying Consolidated Financial Statements and Report of the Auditors thereon for the year ended December 31, 1986, pursuant to the requirements of Section 149 of the CBCA.

The Chairman informed the shareholders that there were two matters of business to be voted on at the meeting. He stated that the two matters related to the election of directors and the appointment of auditors and he declared that if ballots were taken in relation to those matters, the total number of votes attached to shares represented at the meeting by proxy required to be voted against what to his knowledge would be the decision of the meeting on those matters was less than 5% of all the votes that might be cast on such ballots and that he had therefore decided to conduct the votes by a show of hands unless a shareholder demanded a ballot.

The meeting then proceeded to the election of nine directors. Mr. Guy M. Drummond, Q.C. nominated: Michel F. Bélanger, Thomas M. Galt, Allard Jiskoot, The Hon. Peter Lougheed, P.C., C.C., Q.C., Angus A. MacNaughton, Donald C. Matthews, C. Douglas Reekie, W. W. Stinson and Allan R. Taylor for election as directors of the Corporation for a term of three years.

There were no other nominations and on motion of Mr. J. Michael G. Scott, seconded by Mr. David M. McEntyre, the following resolution was adopted:

RESOLVED, that nominations be closed.

The question having been put to a vote, the Chairman declared the motion carried.

Mr. Latham C. Burns moved and Mr. Lynn H. Goth seconded the following resolution:

RESOLVED, that Michel F. Bélanger, Thomas M.Galt, Allard Jiskoot, The Hon. Peter Lougheed, P.C., C.C., Q.C., Angus A. MacNaughton, Donald C. Matthews, C. Douglas Reekie, W. W. Stinson and Allan R. Taylor be and they are hereby elected directors for a term of three years.

The question having been put to a vote, the Chairman stated that the motion had been carried and he declared accordingly.

The Chairman stated that the next item of business was the appointment of auditors. Mr. Donald F. Cope moved and Mr. Peter von Ond seconded the following resolution:

RESOLVED, that Price Waterhouse be and they are hereby appointed auditors of the Corporation to hold office until the close of the next Annual Meeting of Shareholders.

The question having been put to a vote, the Chairman stated that the motion had been carried and he declared accordingly.

During the course of the meeting, shareholders were informed in response to questions, as follows:

that, with respect to negotiations on freer trade between Canada and the United States, the Corporation is basically supportive;

that the Rogers Pass project is on schedule, under budget, and is expected to be open for traffic in late 1988.

There being no further business, Mr. Bryce W. Douglas moved and Mr. William J. McNally seconded the following resolution:

RESOLVED, that this meeting do now terminate.

The resolution having been put to a vote, the Chairman declared the motion carried and the meeting terminated.

Chairman

Vice-President and Secretary

At the meeting of the Board of Directors held after the shareholders' meeting, Mr. Robert W. Campbell was appointed Chairman and Mr. W. W. Stinson was appointed President and Chief Executive Officer.

The following were appointed members of the Executive Committee:

Mr. Robert W. Campbell
Mr. C. Merv Leitch, Q.C.
Mr. Paul L. Paré, O.C.
Mr. Claude Pratte, Q.C.
Mr. C. Douglas Reekie
Mr. W. W. Stinson
Mr. Ray D. Wolfe, C.M.

PRINTED IN CANADA Legal deposit - 2nd Quarter 1987.